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D 8523A

SPAIN
Embarrassment for Socialist party
Page 2

World News | Business Summary

South African talks raise township peace hopes

Hopes for an end to violence which has claimed the lives of more than 10,000 black South Africans since 1984 were raised when leaders of the African National Council, Inkatha and government parties met together nationally for the first time. Page 16

Antarctic refusal
Talks aimed at agreeing a 50-year ban on commercial mining and oil exploration in Antarctica will resume later this year despite a US refusal to endorse the plan. Page 16

Sununu says sorry
White House chief of staff John Sununu, whose use of official transport for private engagements has embarrassed President George Bush, issued a statement of regret. Page 2

Rao warns Indians
Indian prime minister P.V. Narasimha Rao warned his countrymen to "tighten their belts". Sacrifices would be needed, he said, to overcome the economic crisis. Page 3

Kohl angry at neo-Nazis
German chancellor Helmut Kohl said he was enraged by increasingly active east German neo-Nazis who were oblivious to the lessons of history.

Saddam denounced
Saudi Arabian leaders described Iraqi president Saddam Hussein as a tyrant who tried to split the Islamic nation and destroy its resources.

Walesa seeks backing
President Lech Walesa said he wanted to enlist grass-roots support before deciding on whether to dissolve Poland's parliament.

Chirac unrepentant
Former prime minister Jacques Chirac's refusal to apologise for an attack on what he called noisy, smelly and scrounging foreigners has outraged human rights organisations.

EC firm on Yugoslavia
European Community nations decided not to recognise declarations of independence by breakaway Yugoslav republics and to freeze all contacts with their leaders. Page 4

Women ministers upset
Socialists Elisabeth Guigou and Anne-Marie Lizin, the French and Belgian ministers for European affairs, are angry at being excluded from a meeting of European socialist ministers.

Secrets emerge on TV
Israel's military chiefs were criticised by senior politicians and former generals for revealing details on TV of undercover army units operating against the Palestinian uprising. Page 3

Turkish reshuffle
Turkey's Motherland party announced a new government with Mesut Yilmaz, who takes over as premier today, replacing 20 members of the former cabinet. Page 4

Manila says no
The Philippines said it would not adjust terms for stationing US troops because of crippling damage to two bases from an erupting volcano.

Zimbabwe leader ousted
Veteran Zimbabwean politician Edgar Tekere has been removed by his colleagues as president of the country's main opposition movement in a wrangle which threatens to split the party. Page 3

Mazda takes Le Mans
Mazda recorded a first Japanese victory in the Le Mans 24-hour sportscar race. The winning car was driven by Volker Weidler (Germany), Johnny Herbert (Britain) and Bertrand Gachot (Belgium).

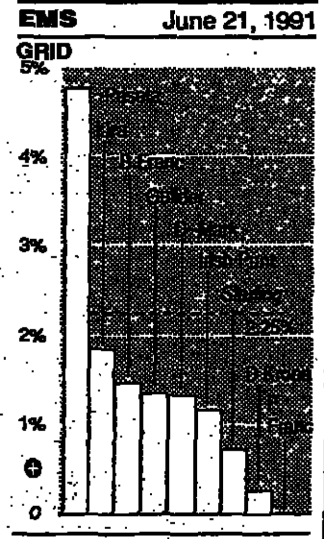
Matra calls for Brussels probe into aid for vans

MATRA, French maker of the Espace van, wants Brussels to probe the legality of proposed aid for two of its rivals to build a Es400bn ($2.5bn) plant making a similar vehicle in Portugal.

The space, telecoms and transport group suspects Portuguese government and European Community regional aid for the Ford-Volkswagen project could create unfair competition in the growing family vans business. Page 16

European Monetary System: Currency rates ended the week steadily within the Exchange Rate Mechanism grid. The peseta weakened on suggestions of lower Spanish interest rates and talk that it may move to the narrow 2¼ per cent ERM band at a lower level. But intervention by the Bank of Spain calmed the markets and the peseta remained clearly the strongest currency.

EMS June 21, 1991



The chart shows the member currencies of the exchange rate mechanism measured against the weakest currency in the EMS's narrow 2.25 per cent fluctuation band. In practice, currencies in the EMS narrow band cannot rise more than 2.25 per cent from the weakest currency in that part of the system. Sterling and the Spanish peseta operate with 6 per cent fluctuation bands.

AT&T of the US is set to win the lion's share of Kuwaiti telecommunications contracts worth at least $400m after an acrimonious struggle with rivals GPT of the UK and Alcatel of France. Page 16

BRITISH TELECOM: Advisers are expected to recommend that the UK government sell part of its remaining 49 per cent stake to the public at a percentage discount to the market rather than a fixed price. Page 17

CONFEDERATION of British Industry's latest monthly trends survey shows orders still weakening and no sign of UK demand or output recovering. Page 8

MANNESMANN, German engineering group, emerged as one of the companies interest in Davy Corporation, Britain's biggest independent engineering contractor is effectively up for sale after making losses on a rig contract. Page 18

SPANISH electricity: The board of Spanish private sector electricity company Sevillana will consider a formal takeover offer from its public sector rival, Endesa. Page 17

TOTTENHAM Hotspur's manager Terry Venables has raised £3m ($4.9m) to buy shares in and help refinance the London football club where he has taken control with Amstrad chairman Alan Sugar. Page 17

VOLKSWAGEN of Germany confirmed it had been in touch with Nicholas Hayek, Swiss developer of the "Swatch" watch, about possible production of a "Swatch-Car".

London meeting warns dollar speculators and takes cautious line on USSR

G7 confident on world economy

By Peter Norman and Rachel Johnson in London

AN UPBEAT assessment of world economic growth prospects was delivered yesterday by the finance ministers and central bank governors of the Group of Seven leading industrial nations.

But in a carefully worded communiqué, issued after seven hours of talks in London, they made clear that this did not mean that all countries should pursue the same policies at the same time.

The communiqué contained a thinly veiled warning for investors who have bid the dollar up by 20 per cent against the D-Mark and other currencies in recent weeks. The ministers and governors, it said, "reaffirmed their commitment to co-operate closely, taking account of the need for orderly markets, if necessary through appropriately concerted action in exchange markets."

Neither Mr Norman Lamont, the UK chancellor, who chaired the meeting, nor Mr Pierre Bérégovoy, the French finance minister, would elaborate on this passage.

However, Mr Karl Otto Pöhl, president of the Bundesbank, said it did indeed refer to central bank intervention. He would not comment on whether the banks would intervene to cap the dollar at current levels. At Friday's close in London, the dollar was at DM1.799.

Mr Ryutaro Hashimoto, the Japanese finance minister, told a news conference that the G7 shared the view that the exchange rate levels of the dollar are close to the ceiling.

The yen's value against the dollar did not properly reflect Japan's economic fundamentals and should therefore be corrected, officials said.

However, Mr Nicholas Brady, US treasury secretary, said the recent rise in the dollar was not inconsistent with the orderly movements in the foreign exchange markets in recent years.

Speaking after the meeting, officials said there was no such willingness on the part of G7 countries to alter interest rates. Germany in particular had made clear that lower interest rates were impossible at present because its strong growth performance in the first quarter had carried over into the second.

The final statement also papered over some differences of approach on how the west should help the Soviet Union bring market oriented reforms to its crisis ridden economy.

Mr Lamont said afterwards that the G7 – which comprises the US, Japan, Germany, Britain, France, Italy and Canada – had agreed that massive financial aid was not the answer to the Soviet Union's problems. It was not envisaged that the forthcoming London summit of the seven countries in July would make commitments about financial assistance. It was more important, he said, that the Soviet Union initiate a programme of domestic economic change involving privatisation, price reform and structural reform.

Mr Bérégovoy said the G7 would need to see "tangible results". On the Soviet Union's relationship with the international financial institutions, he said some countries favoured associate membership of the International Monetary Fund and others, and others a transitional status.

Tony Andrews

Karl Otto Pöhl, president of the German Bundesbank, arrives for the Group of Seven meeting in London yesterday

The US has been the main advocate of associate status for the Soviet Union at the IMF. Last night Mr Brady said: "There was general agreement that the idea suggested by President George Bush of associate status for the Soviet Union was a good idea."

However, the Bonn government has also made clear that it would be wary of such a move if it meant long delay in granting full IMF membership to the Soviet Union.

Speaking afterwards Mr Lamont said one of the most important conclusions of the meeting was that countries were more optimistic about growth. Many countries that had experienced recession were likely to seek recovery in activity in the second half of this year.

Mr Bérégovoy said the G7 had collectively agreed that there were "incontestable" signs that a global recovery was under way since their last meeting in April.

However, in the Anglo-Saxon economies, signs of recovery were proving were "difficult to interpret."

The meeting had been happy that recent falls in US and UK interest rates had been accepted by financial markets and "not been followed by rate rises".

Communiqué, Page 2
Economic indicators, Page 4

Gorbachev faces momentous choice on economy

By John Lloyd in Moscow

MR Mikhail Gorbachev, the Soviet president, faces one of the most momentous choices of his turbulent career in the next few days – whether to adopt a plan to revolutionise the Soviet political and economic system.

His actions will decide whether the Soviet Union attempts a rapid opening to the world economy with the co-operation of the west, or continues a search for change internally, drawing on its own depleting resources.

Mr Gorbachev knows that only the first choice will be an acceptable basis for support from leaders of the Group of Seven industrial countries, who meet the Soviet leader at their London summit next month. However, its adoption risks political and social turmoil.

The more radical of the programmes he is considering – written by Mr Grigory Yavlinsky, the former deputy prime minister of Russia, in association with US experts – is circulating in Moscow and has been sent to the G7 leaders. Mr Yavlinsky spent two hours with the Soviet president on Saturday, devoted to explaining the implications of his programme.

The plan assumes, but does not state, western assistance of $20bn-$35bn a year, largely in the form of grants rather than loans, half of which would theoretically be made available through the International Monetary Fund and the World Bank. The aid would follow the conclusion next year of an agreement on IMF aid to support liberalisation and stability. However, the US in particular has been at pains to play down the possibility of massive financial aid from the west.

Details of the plan's timetable for economic reform have already been widely circulated. However, it now emerges that the plan warns western leaders that the "wait and see" policy on Soviet reform favoured by the US would risk mutual catastrophe.

In an effort to increase pressure on the west the plan's third section warns of a possible collapse of central control over nuclear weapons and civil nuclear facilities. It also stresses the need for continued Soviet co-operation in moderating ethnic tensions in the Moslem world, including the Soviet Union's 60m Moslems. The plan urges the need to begin to reduce the Soviet Union's vast contribution to world pollution.

It argues that where the post-war Marshall Plan of US aid to western Europe represented 5 per cent of one year's US GNP over five years, the "Yavlinsky plan" would envisage only 0.6 per cent of one year's GNP from all the OECD countries over four years.

It crucially assumes that Soviet progress towards democracy would continue, on a tight timetable, including:

- By the end of this summer, the signing of a new Union Treaty by those republics who wish it.
- By the autumn, the signing of an economic agreement covering both Union and non-union members, with further negotiations on trade, currency and property with republics who have opted for full independence.
- By spring 1992, the adoption of a new constitution and pluralistic elections to the union Supreme Soviet, together with the appointment of a new government, by next summer.

By contrast, the government's anti-crisis plan, worked out under the leadership of Mr Valentin Pavlov, the prime minister, focuses on administrative steps towards a controlled market.

Mr Gorbachev rounded on his hardline critics on Friday

Continued on Page 16

Luxembourg presses for firm agreement on Emu

By David Buchan in Luxembourg

LEADERS at this week's EC summit will come under strong pressure for "concrete decisions" on political and monetary union, the Luxembourg presidency said yesterday.

Luxembourg's desire to end its presidency with some firm agreement poses problems for Mr John Major, the British prime minister, who wants time to heal Conservative party divisions over the EC.

Mr Jacques Poos, the Luxembourg foreign minster, insisted that "government heads should confirm their political will to consolidate progress with concrete decisions".

However, at a preparatory meeting of foreign ministers yesterday, Mr Tristan Garel-Jones, a UK foreign office minister, claimed that "at least four other countries spoke out against coming to any firm conclusions this week" in the political and monetary union negotiations. These started in January and are expected to end in December.

"Barring accidents", Mr Garel-Jones said, "I am absolutely confident that at Maastricht in December we will have a good treaty for the UK and a personal triumph for John Major".

The December summit of the EC will see the Dutch in the chair – they take over the presidency from Luxembourg next week.

Luxembourg has decided that Friday's summit agenda will include discussion of a common foreign and defence policy, and more powers for the European Parliament. Pre-summit pressure will be further increased by a meeting in Luxembourg on Thursday of foreign and defence ministers of the Western European Union, called by its current president, France, to underscore the defence organisation's links with the EC.

Even EC union enthusiasts such as the Commission and Belgium are counselling Luxembourg not to push Mr Major too far at this stage.

Mrs Anne-Marie Lizin, Belgium's EC affairs minister, said: "It is clear that the UK will be more comfortable if we don't hold a knife to its throat." Denmark, Ireland, Portugal and the Netherlands share UK reticence on certain aspects of political union.

Mr Jacques Delors, the Commission president, warned Luxembourg to resist its own wishes, and those of countries such as Italy, to force social policy on to the summit agenda.

As is likely to be highlighted again at tomorrow's Social Affairs Council, the UK is the sole opponent of much EC labour market regulation. Mr Delors feels a discussion of social policy would be unnecessarily contentious now, given Mr Major's domestic political difficulties and the fact that final treaty decisions may yet be some months off.

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Eurocrats' strike, Page 4

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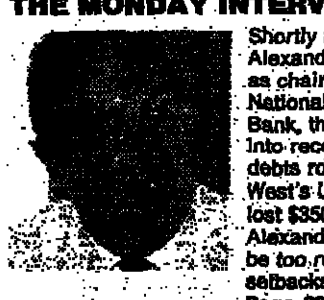
THE MONDAY INTERVIEW



Shortly after Lord Alexander took over as chairman of the National Westminster Bank, the UK plunged into recession and bad debts rocketed. NatWest's US operation lost $350m. But Lord Alexander refuses to be too ruffled by such setbacks.
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FT SURVEYS THIS WEEK

US car manufacturers are becoming increasingly hard pressed by new Japanese luxury cars. Some Europeans are saying: "If you can't beat 'em, join 'em".
(See Executive Cars survey tomorrow)

TODAY:
Egypt: President Mubarak has enhanced his prestige and won friends in the west for his role in the Gulf war. What advantages can Egypt reap from this? *(see Section III)*

TOMORROW:
Executive Cars: *see panel left.*
Belgium: Prime minister Martens is keen to devolve power to the regions, combining a vision of a *united Europe with internal* fragmentation.

THURSDAY:
Yugoslavia: *To be, or not to be....*

FRIDAY:
Corporate Finance: The memories of billion-dollar mega-bids and junk bonds are tantalising in their closeness to the present, but wholly alien to the bleak realities of the 1990s.

Foreign ministers agree Maastricht meeting will be milestone for union talks

EC looks to December for hard decisions

By David Buchan in Luxembourg

Foreign ministers Genscher (Germany), de Michelis (Italy), Pinheiro (Portugal), Collins (Ireland), van den Broek (Netherlands), Fernández Ordóñez (Spain) and Ullemann-Jensen (Denmark) before yesterday's meeting

THE only milestone in the European Community's marathon negotiations on political and monetary union that really matters is the finish this December in Maastricht, EC foreign ministers agreed.

This was the sole unanimous conclusion from yesterday's meeting of EC foreign ministers, called to prepare the summit of their governments' heads here later this week.

Significantly, both Germany and the UK emphasised yesterday that the time for decision was around the Maastricht summit, towards the end of the Dutch presidency in the second half of this year – no later, but certainly not much earlier. Chancellor Helmut Kohl has sought to avoid rushing Prime Minister John Major into hard decisions.

But, since every presidency likes to have its handiwork applauded, particularly one that is so small and has worked so hard since it gavelled the intergovernmental conferences on political and monetary union into life in January, Luxembourg suggested its partners might care at this week's summit to endorse large chunks of its 132-page draft treaty.

This should not be hard, suggested Luxembourg, because all except Britain basically accepted the outline treaty on such key issues as foreign policy and an equal legislative or co-decision role for the European parliament.

Not so fast, intervened Mr Uffe Ellemann-Jensen of Denmark and Mr Gerry Collins of Ireland, pointing out that their countries still had some reservations about increasing powers for Strasbourg. Even such a proponent of "fast forward" integration as Mr Gianni de Michelis, the Italian foreign minister, who yesterday said "British public opinion should realise that the principle of co-decision must appear in the treaty", acknowledged the reluctance of many countries to commit themselves so far in advance of the giant horse-trade that will come just before Maastricht.

Ministers said there was no serious discussion of the use of the word "federal" in the draft union treaty which will go to the summit.

Britain, Denmark and Portugal reject the word and most delegations accept that it is unlikely to survive.

None the less, Mr Major will have no reason to come to Luxembourg on Friday with a light heart.

Making clear that he wanted to turn this week's summit into more than a stocktaking, Mr Jacques Poos, the Luxembourg foreign minister, said the 12 leaders would be invited to narrow their differences on a common, security and even defence policy, the powers of the parliament (co-decision), and the requests from poorer EC states for more money (so-called cohesion). These differences centre on:

- The draft treaty's call for "an eventual defence policy", which is backed by France and some other Latin countries, but seriously jars with the UK, the Netherlands, Portugal and Ireland.
- Giving the European parliament a say equal to that enjoyed by the Council on certain laws, as proposed in the draft treaty. Keenest on this is Germany, with Italian and Belgian support; the UK, Denmark, Ireland and Portugal are the most reluctant.
- Luxembourg has written a general call for "cohesion" high into its draft treaty, but clearly wants to use the summit to persuade Spain to delay its demands for more money until next year.

Apart from the cohesion issue, the UK will be at the centre of the summit debate on these topics. Indeed, if Luxembourg disregards Commission advice and also puts social affairs – the issue on which the UK is the most isolated – on the summit menu, then it could be a confrontational occasion after all.

Proposals for the EC to help pay for police to move into Iraq under United Nations auspices will be put to EC government leaders when they meet in Luxembourg later this week, David Buchan reports.

EC foreign ministers yesterday asked the Commission to identify how much money was still needed by the UN, which had appealed for $51.5m (£31.4m) to replace departing western troops who have been protecting Kurdish refugees.

Japanese puzzle 'G7-men'

By Peter Norman, Economics Correspondent

INTERNATIONAL monetary policy makers have been more than a little bewildered as to why Japan's finance ministry pushed so hard to have yesterday's G7 meeting ahead of next month's London summit.

The Japanese stock market has been weak lately but at 24,275.08 on Friday, the Nikkei average was well above the 23,000 level at which the Tokyo government becomes alarmed about falling asset values.

Moreover, Mr Yasushi Mieno, the hard-line governor of the Bank of Japan, has hardly been pushing for a Japanese interest rate cut.

On reflection, experienced G7 watchers attribute the Japanese pressure to the political ambitions of Mr Ryutaro Hashimoto, the finance minister.

He sees himself as a successor to the prime minister, Mr Toshiki Kaifu, and seems to believe his appearance at a G7 finance ministers' meeting gives him a chance to upstage his chief before he comes to London for next month's economic summit.

* * * *

Yesterday's G7 meeting marked the end of an era. The final appearance at the G7 of Mr Karl Otto Pöhl, the outgoing Bundesbank president, meant the meeting was the last to be attended by one of the founding fathers of the group.

As a Bonn finance ministry official, Mr Pöhl played a key role in setting up the so-called "Library Group" in the early 1970s to discuss the problems faced by the leading industrial economies at the time of the first oil crisis. This group, which got its name after meeting for the first time in the library of the White House in May 1973, evolved into the G5 gatherings of finance ministers and central bankers from the US, Japan, Germany, Britain and France. In the late 1980s, Italy and Canada joined to form the G7.

The big difference between the early 1970s and today was that the "Library Group" and the G5 met in secret and never issued communiqués.

Veterans of that period have always claimed that the old-style meetings were far more effective than those of today, where hours that could be spent profitably in exchanging ideas are often spent crafting anodyne closing statements.

* * * *

The present generation of G7 ministers and central bankers recognise that there is no turning back the clock to the days of secret meetings. Even so, there was surprise among some of the visiting delegations at an unusual slip-up of protocol by the British hosts.

The date and venue of the meeting were announced to the world's press last Wednesday before the formal invitations had been sent to the participating ministers, officials and central bankers, indicating the G7 has slipped from being an exclusive club to just another media circus.

'Sustained economic growth and price stability essential'

Following is the text of the communiqué issued at the end of the meeting of the Group of Seven representatives in London yesterday:

THE finance ministers and central bank governors of Canada, France, Germany, Italy, Japan, the USA and the UK met for an exchange of views on current international economic and financial issues.

The ministers and governors reviewed the global economic situation and prospects, including developments in their economies since their meeting in April. They noted with satisfaction the increasing signs for global economic recovery. They agreed that sustained global economic growth with price stability is essential to address the historic challenges and opportunities which are facing the world economy. They further agreed that pursuing such a strategy in a medium term context was the best way of meeting these challenges and accordingly they reaffirmed their support for economic policy co-ordination.

The ministers and governors emphasised the importance of fiscal and monetary policies which provide the basis for lower real interest rates and a sustained global economic recovery with price stability. The recognised that the approach taken would need to reflect the differing situations in each country. They noted the signs of prospective economic recovery and lower inflation in those countries which are in recession; some other countries are experiencing slower growth while in others, particularly Germany and Japan, economic activity is continuing to make a positive contribution. The ministers and governors also welcomed the reductions in interest rates that have taken place in a number of their countries and elsewhere. They believed that monetary policy should provide the conditions for sustainable growth with price stability in line with the differing circumstances of each country.

The ministers and governors stressed the importance of policies aimed at increasing savings. The ministers and governors noted the important budgetary measures taken in some of their countries to reduce significantly high budget deficits and improve the conditions for lower interest rates. Continued progress in reducing budget deficits is essential to strengthen national savings. These efforts should be complemented by measures to reduce impediments to private saving, particularly where saving rates are low.

The ministers and governors also reviewed recent developments in international financial markets and reaffirmed their commitment to co-operate closely, taking account of the need for orderly markets, if necessary through appropriately concerted action in exchange markets.

The ministers and governors noted that sustained expansion in global trade is an important engine of growth, including for countries throughout the world that are restructuring their economies. In this regard, they accorded the highest priority to a swift and successful conclusion to the Uruguay Round. In light of the particularly difficult circumstances facing eastern European countries and the Soviet Union, consideration should be given to measures which would enhance the trade prospects of these countries.

The ministers and governors welcomed the reform efforts under way in the eastern European countries. They noted the economic situation in the Soviet Union and the need for sustained economic reform. Success of these countries in their process of transition and fundamental reform is in the interest both of these countries and global economic growth.

The ministers and governors also underscored that the adoption of measures in their countries to promote economic efficiency could provide an important spur to global economic recovery and price stability. Such measures could also send a strong and positive signal to reforming countries, implementing their own reforms. They agreed on the need to review regulations and structural policies with a view to improving the functioning of their economies.

Sununu: sorry

Sununu says he regrets 'mistakes'

By Nancy Dunne in Washington

MR JOHN SUNUNU, the White House Chief of Staff, whose use of official transport for private engagements and other unorthodox travel arrangements have become an embarrassment to President George Bush, has issued a statement of regret for "mistakes" giving the "appearance of impropriety".

Mr Sununu has promised to abide by a new set of travel rules. These require him to arrange his political trips through the White House Office of Administration, which must then get approval from the White House counsel.

Mr Sununu acknowledged at the weekend: "Obviously some mistakes were made. Certainly, I regret that my own mistakes contributed to this controversy."

In the latest incident, Mr Sununu turned to soliciting rides on corporate planes in his apparent determination to avoid travel on commercial aircraft like other government officials. This practice is fraught with peril because of its possible conflict-of-interest implications.

NEWS IN BRIEF

Kurds say deal is reached with Iraq

KURDISH leader Massoud Barzani said yesterday his people had given him a mandate to sign a peace agreement with President Saddam Hussein which pledged free, multiparty elections in Iraq within a year, Reuter reports from Sardaw, Iraq.

Breaking off from several days of consultation with tribal, community and political leaders from all over Kurdistan, Mr Barzani told foreign journalists the agreement also promised the Kurds elections of their own within three months.

Mr Barzani leads the Kurdish Democratic Party, the largest rebel group in a post-Gulf War rising which Mr Saddam's army crushed in March.

Mr Barzani said he would return to Baghdad after talks with Mr Jalal Talabani, leader of the Patriotic Union of Kurdistan, who he said was not likely to veto the agreement.

Meanwhile, a US military spokesman said the western allies had withdrawn all but 5,100 troops from Kurdish refugee havens in northern Iraq.

Vietnam leader to resign

Communist party chief Nguyen Van Linh, leader of Vietnam's five-year-old reform programme, is expected to resign today at a national party congress, according to reports quoting sources in Hanoi, AP reports from Bangkok.

Linh, who turns 76 on July 1, has been reported sick in recent years, but his previous requests for retirement were turned down. He became party general secretary at the sixth party congress in December 1986, a watershed event that sanctioned western-style economic reforms. His replacement is expected to be Do Muoi, 74, as prime minister since 1988.

El Salvador talks stalled

Talks to forge a ceasefire in El Salvador's 11-year civil war ended without agreement late at the weekend in Queretaro, Mexico, but UN mediator Alvaro de Soto said progress had been made toward peace, Reuter reports.

Almost a week of talks produced "no accord in the formal sense, but yes they have been very useful in helping along the peace process", Mr De Soto told reporters.

Kohl warns of 'old demons'

Chancellor Helmut Kohl, in a rare reference to rising right-wing violence in eastern Germany, warned Germans on Sunday to be wary of "the old demons," AP reports from Berlin.

In a speech to Roman Catholic Church leaders, Mr Kohl expressed outrage over the "shameless appearance" of neo-Nazis in the troubled eastern side of the country.

Threat to Kuwaiti concerns

A Moslem fundamentalist group threatened yesterday to launch terrorist attacks on Kuwaiti interests around the world if the emirate carried out executions of Jordanians for alleged collaboration with Iraqis, AP reports from Amman.

The Islamic Liberation Front, established three years ago in the Israeli-held West Bank, made a personal threat against the emir of Kuwait, Sheik Jaber al-Ahmed al-Sabah.

Tokyo pledges to root out pork fraudsters

By Robert Thomson in Tokyo

THE EC hopes that an assurance from Mr Toshiki Kaifu, Japan's prime minister, will end a pork-purchasing fraud that is blamed for a slump in European exports and is alleged to involve Japanese gangsters, Taiwanese pig farmers, and a collection of small trading houses.

Mr Kaifu agreed at a meeting last week with Mr Poul Schlüter, the Danish prime minister, that something must be done about the problem of Taiwanese pork, and European diplomats have already been given a list of Japanese companies investigated for alleged invoice falsification that allowed them to import pork at unfairly low prices.

But doubts remain about Tokyo's ability to stop the fraud, as many pork import companies are run by a Japanese underclass known as the burakumin, who were the traditional slaughterers of livestock in Japan and who remain both discriminated against and feared.

The EC delivered a formal note to the Japanese government in April asking authorities to "suppress fraudulent imports of pork". However, Japanese officials would not admit there was a problem, and it was not until the meeting with Mr Kaifu that a clear sign was given of planned action against illegal imports.

Denmark and Taiwan have accounted for more than 60 per cent of Japan's annual pork imports since 1984, with Denmark generally taking the larger share of the estimated $1.5bn (£910m) market. The EC suspects a problem has existed since 1984, when a small Japanese trading house was prosecuted for alleged evasion of duties and taxes on imports of Taiwanese pork, but the situation has become more serious in recent months.

Last year, imports of Danish pork cuts fell 22 per cent, while those from Taiwan rose 24 per cent and accounted for about half of the total imports of 329,600 tonnes.

EC and Japanese officials agree that it is difficult to reckon the impact of false invoicing on Taiwanese exports, which would probably be strong regardless of fraud. But there is now little official doubt that a complex system of fraud does exist, and that it has its centre in the central Japanese port of Nagoya.

Under a tariff system established to protect Japanese pig farmers in a supposedly liberalised market, a standard import price per kilogram is set by the Japanese government, and imports priced below that level have a "differential duty" levied on them that basically evens up the prices.

If, for example, the standard price is Y660, a 5 per cent duty will apply if a shipment is only marginally below that level, so the ideal price on an invoice would be Y628.57, which, plus the 5 per cent, comes out at a nice, even Y660 per kg.

The EC presumes, and Japanese officials now concede, that invoices lodged in Nagoya have routinely been marked at 5 per cent below the standard price, but that the actual cost of the Taiwanese pork has been as much as 35 per cent below that reported.

There is no suggestion that all traders are playing the game, but those who are indulging take a cut themselves, while Japanese distributors buying the low-priced pork will have an obvious competitive advantage.

EC officials have identified some of Japan's smaller, sometimes short-lived pork trading companies as the core of the problem, which is linked to Japanese ambivalence about the burakumin, who are active in pork trading, but whom Japanese officials are often reluctant to prosecute.

The Japanese press has reported that gangster-affiliated groups have been passing themselves off as burakumin in an attempt to avoid official scrutiny and to capitalise on the easy profits to be made through document falsification.

In the EC's diplomatic note last April, specific mention was made of the Nagoya connection: "As the problem appears concentrated around the port of Nagoya, it would seem most appropriate if staff levels of competent customs and police officials were raised to levels adequate to this task and to deal with the problem with a sufficient priority."

It remains unclear exactly what action will follow Mr Kaifu's assurance, but Japan's Agriculture Ministry insists that the EC is exaggerating the impact of the fraudulent imports. The ministry points to other, legitimate reasons for the increase in Taiwanese sales, including the island's proximity to Japan and its strength in chilled pork, increasingly popular in a market previously dominated by frozen cuts.

Mexican trade deficit deteriorates sharply

By Damian Fraser in Mexico City

MEXICO'S trade deficit widened sharply in the first four months of this year to $1.85bn (£1.12bn). Excluding revenues from the maquiladoras in-bond processing plants, the deficit stood at $2.43bn.

The latest figures represent a sharp deterioration over those reported last month; in the first quarter the trade deficit stood at $639m, and the non-maquiladora deficit at $1.6bn.

This in turn was an increase on the non-maquiladora deficit for the last quarter of 1990, which reached $904m.

Nevertheless, thanks to substantial inflows of foreign and repatriated capital, the widening trade deficit will not put any pressure on the exchange rate in the near future.

Indeed, the Bank of Mexico has recently stepped up its "sterilisation" of capital inflows, and has allowed Mexicans to open bank accounts in dollars, in order to slow domestic money-supply growth that has been boosted by inward investment.

The trade deficit has widened so sharply because of a substantial increase in imports, rather than a fall in exports. In the first four months of the year imports grew by 43.7 per cent compared to the same period last year, while exports increased by 13 per cent.

The import bill in turn is accounted for mainly by intermediate and capital goods (86 per cent of the total), whose imports have increased from $6.72bn in the first months of 1990 to $10.31bn in the same period this year. Imports of consumer goods have risen more slowly, from $1.16bn to $1.58bn.

The Ministry of Budget and Planning reported that oil exports increased by 9.1 per cent over the first four months of last year; non-oil exports grew by 14.8 per cent; and manufacturing exports, which form the bulk of non-oil exports, expanded by 20.2 per cent.

Spanish socialists find bulls in their china shop

Political controversy has flared up over the activities of a consulting company, writes Peter Bruce

PERHAPS Spain really is a land of opportunity. In just a few years, Filesa – a tiny, unknown consulting company in Barcelona – appeared to have become one of the giants of European consultancy, commanding million-dollar fees from the captains of Spanish industry in return for its expertise on everything from leasing containers to establishing companies in Britain and France.

According to invoices published in most Spanish newspapers, it even persuaded the big international group Asea Brown Boveri (ABB) to part with Ptas112m (£615,300) in return for expert advice on buying two companies in the Basque country. ABB also paid for a report on circuit breakers, a group speciality.

Banco Central paid Filesa Ptas204m for studies on bank mergers, Banco Bilbao Vizcaya, Spain's biggest bank, paid Ptas94m for reports on industry in the Community and container leasing, and Cepsa, Banco Central's oil refining affiliate, paid some Ptas244m for reports on petrochemicals and refining markets.

But the fairy tale goes rotten. Filesa is controlled by two people close to Spain's ruling Socialist party. With its "consultancy" income, Filesa and an associate, Time Export, paid out more than Ptas300m for election publicity and rent on Socialist election headquarters in Madrid between 1987 and 1990.

But of all the industrial companies named in Filesa's invoices as consulting clients, only in one case, Catalana de Gas in Barcelona, is it known for certain what most Spaniards suspect to be true – that the "reports" never existed. Speculation is that the client companies may have been making political donations (the legal limit is Ptas10m) in the hope of winning favours later on.

Although the number of elections – nationwide, municipal, 17 regional, one European and one general – that parties in federal Spain have to fund every four years always raises doubts about the cleanliness of party political financing, the sheer weight of published evidence in this subsequent scandal has deeply embarrassed Prime Minister Felipe González and the industrial companies involved.

None of them will talk about the reports, let alone show them in public. "We order dozens of reports a year," says Banco Central, "and we are not going to be pressured into proving our innocence." Others say the reports are secret, too heavy, or lost. BBV insists it has its reports. ABB, three weeks after the affair broke, says it is still conducting an internal investigation.

One Filesa client told the FT the scandal had put his company in a very difficult situation. Officially, it has said the reports exist but the company asked for three days in which it would "consider changing this position." It decided not to. Spanish newspapers have accused the companies involved of buying time in order to fabricate the reports.

The muted response from the most powerful banks and corporations in the country is understandable. If it is proved the reports were never written, the business leaders involved fear public humiliation and the wrath of the Socialist party. Spain's deeply regulated economy requires official approval for most corporate activity.

But while the already shaky reputation of Spanish business practices is being worsened by the scandal, most criticism is being directed at the Socialists.

Mr Javier Pradera, chief leader writer on El Pais, which broadly supports Mr González wrote recently: "The ghostly companies [Filesa and Time Export] have crashed through the law like bulls in a china shop. The imperturbability of the party executive, which denies any wrongdoing and has created an internal investigation, is to fall back on the loathsome belief that to resist is to win. The capacity of some Socialists to deny the evidence or insist donkeys can fly is an attempt to tire critics and bore the public into forgetting the issue."

Last week the party's internal investigation declared it innocent. It denied having anything to do with the Ptas13m Filesa paid a publicity company, Mabosa, for a Socialist election video in 1989, saying the party had paid Mabosa Ptas25m for another video. It also produced an invoice showing rent on its election headquarters had been correctly paid, and said a widely published invoice showing the rent had been paid by Filesa had been doctored.

But the Socialists also accepted the resignation of Mr Carlos Navarro as treasurer of the parliamentary party and suspended the party treasurer until a judicial investigation has been completed. Mr Navarro was a shareholder in the consulting companies until 1987. They are now owned by an uncle of his and by the brother of a senior member of the Socialist party executive committee.

They claim many of the invoices published are inventions and it is likely that the party will also go onto the offensive in the coming days in an attempt to blunt political attacks from the press and the opposition.

But the affair leaves some of Spain's most illustrious businessmen exposed and, at best, looking foolish. Mr Pedro J Ramirez, editor of El Mundo, the newspaper that broke the scandal, wrote last week that the silence of Filesa's "clients" did not surprise him. "They are bankers, not heroes," he wrote. That is not the way leaders of Spain's thrusting new economy like to see themselves.

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INTERNATIONAL NEWS

Turkey replaces cabinet with an eye on elections

By John Murray Brown in Ankara

TURKEY'S Motherland party (Anap) yesterday announced a new government with Mr Mesut Yilmaz, the party leader, replacing 20 members of the former cabinet in a bid to revitalise the party's image ahead of general elections.

Mr Yilmaz, who formally takes over as prime minister today, promised new powers for both the economics and foreign ministries, prompting speculation he may try to steer a more independent line of President Turgut Ozal.

The 30-strong cabinet includes few other surprises. Mr Mehmet Keciciler, who heads the party's Islamic wing and has done much to strengthen Anap's constituency organisation since the last elections in 1987, has lost his position.

Another key conservative, Mr Ekrem Pakdemirli, becomes economics minister, taking on the portfolios of both Mr Gunes Taner, the outgoing Treasury minister, and Mr Isin Celebi, former head of the state planning organisation. Mr Adnan Kahveci stays on at finance and customs, the only key economics minister from the old cabinet. Mr Safa Giray, who resigned as defence minister in October, takes over foreign affairs.

At party headquarters yesterday, Mr Yilmaz said the ministerial commissions on European Community affairs, which are currently handled separately, will be incorporated in the foreign minister's brief.

Mr Yilmaz keeps faith with four ministers who openly supported Mr Yildirim Akbulut, the former prime minister, in this month's leadership race – underlining the need to reunite ahead of elections which must be held before November next year. Among them is Ms Imren Aykut, the only woman in the cabinet, who will be the government's new spokeswoman.

Kim Dae-Jung 'set to quit over poll results'

MR KIM Dae-Jung, head of South Korea's main opposition party, has said he is ready to resign to take responsibility for the recent election defeat, aides said yesterday, AP reports from Seoul.

Mr Kim, president of the New Democratic Party, may announce his resignation at a party caucus today, the aides added. It was expected the resignation would be accepted.

His resignation is expected to rekindle efforts to merge divided opposition forces into a larger anti-government group. Mr Kim, whose support base is regional, has long been considered an obstacle to uniting the opposition forces.

The opposition leader was admitted to a hospital for a check-up on Friday, one day after the nationwide local elections, in which his party suffered a humiliating setback.

Aides said Mr Kim, 66, would remain an ordinary party member after the resignation. They also indicated he could return to power if a party convention, to be called soon, rejected his resignation.

His party suffered a major defeat in Thursday's local elections, which were seen as a test of popular support for President Roh Tae-woo, who has governed since 1988.

The poll was also seen as an indication of the direction voters may take in a series of elections over the next 18 months, including parliamentary and presidential elections, in which President Roh cannot succeed himself.

His governing Democratic Liberal Party swept 65 per cent of the 866 seats up for election on local councils in six large cities, including Seoul, and nine provinces. In Seoul, government candidates took 110 of the 132 seats voted on.

EMOTIONAL RETURN: Archbishop Trevor Huddleston (left), on a visit to South Africa for the first time since he left 35 years ago, greets ANC leaders Nelson Mandela (centre) and Alfred Nzo (right).

Military chiefs under fire in Israel over secret agents shown on TV

By Hugh Carnegy in Jerusalem

ISRAEL'S military chiefs were criticised by senior politicians and former generals yesterday for disclosing details in a TV programme of undercover army units operating against the Palestinian uprising in the occupied territories.

The existence of such units was widely known, but a barrage of hostile reaction came over the army's decision to drop the veil of secrecy covering their operations, in a TV sequence that included film of an armed agent disguised as an Arab woman arresting a suspect in a street.

Lt-Gen Ehud Barak, chief of staff, is expected to be questioned on the subject by the Knesset's foreign affairs and defence committee. Mr Yehoshua Saguy, an MP and former military intelligence chief, said: "It's a scandal."

The programme was cited by Mr Rehavam Ze'evi, minister without portfolio, as the latest example of laxity in the army's fight against the intifada.

He said he was recommending his right-wing Moledet party withdraw from the coalition because the government was not tough enough against the 42-month-old uprising. The departure of Moledet would not on its own threaten Mr Shamir's government.

Army spokesmen said the TV programme served to show Palestinian activists that they were never safe from army action.

Row over political price of immigration

By Hugh Carnegy

THE prospect that the Bush administration will demand a political price for extra economic aid for Soviet Jewish immigration sparked controversy at the weekend, when Israel's ambassador to Washington said publicly the government had to choose between Jewish settlements in the occupied territories or aid.

Mr Yitzhak Shamir, Israel's prime minister, was reported to have reprimanded the envoy, Mr Zalman Shoval, for his comments in a radio interview.

The government, which has so far flatly refused appeals from Washington to halt settlements in the West Bank and Gaza Strip, decided at a cabinet meeting to resist any linkage between political issues and aid to help Israel absorb hundreds of thousands of Soviet Jews flooding into the country.

But the remarks by Mr Shoval, formerly an MP for Mr Shamir's Likud party touched a nerve. Mr Ehud Olmert, the health minister, of Health, said: "He expressed his fear, and I certainly share his fear, that the Americans will put it this way." Israel is seeking US state loan guarantees for up to $10bn (£6bn) to help fund immigration.

Mr Shoval left no doubt he believed the Bush administration would tie the request to the issue of the occupied territories.

Cambodian factions agree fresh ceasefire

CAMBODIA'S warring factions have agreed an indefinite ceasefire, but remain split on who will negotiate a peace settlement, resistance leader Prince Norodom Sihanouk said yesterday, AP reports from Bangkok.

The agreement came at two days of discussions leading up to formal peace talks today at Pattaya, near Bangkok, Prince Sihanouk said after informing Premier Anand Panyarachun of Thailand.

"We accept a continuous ceasefire, a ceasefire without time or limit," Prince Sihanouk said. "We can say that there is no more war in Cambodia, at least on paper, (and) I hope, on the ground."

The factions had agreed a truce starting on May 1, but both sides accused the other of serious violations. The largest guerrilla group, the communist Khmer Rouge, declared that truce over, after peace talks collapsed in Jakarta, earlier this month.

A UN role in monitoring the ceasefire will be discussed at the Pattaya talks among the members of the Supreme National Council, the prince said. The council comprises six officials of the Hun Sen government, and two from each of the guerrilla groups: the forces of Prince Sihanouk, the Khmer Rouge, and the Khmer People's National Liberation Front.

The council is supposed to negotiate a UN Security Council peace plan drafted late last year but instead, has been mired in bickering and procedural issues.

Prince Sihanouk said Mr Hun Sen also wanted to discuss the need for all factions to declare an end to outside military aid. The Soviet Union arms the Hun Sen government while the Chinese arm the Khmer Rouge. The problem of the leadership of the Supreme National Council remained, he added.

After meeting Prince Sihanouk earlier yesterday, Mr Hun Sen said they had reached "substantial agreements" that could make Pattaya a success. Prince Sihanouk's new proposals had been accepted "almost completely," Mr Hun Sen said without elaborating.

Sacrifices will be needed, India's new PM warns

By David Housego in New Delhi

MR P.V. Narasimha Rao, India's new Prime Minister, has warned his countrymen that they will have to "tighten their belts" and that sacrifices will be needed, to overcome the economic crisis.

Rao: budget within month

In a TV address to the nation, Mr Rao said his government would introduce a budget within a month. The International Monetary Fund has told India that a new budget, reducing the fiscal deficit to 6.5 per cent of Gross Domestic Product from almost 9 per cent last year, is a prerequisite to any further IMF borrowing.

Mr Rao extended a welcome to foreign investment, saying "obstacles that come in the way of attracting foreign investment on a sizeable scale will be removed". His speech, with the strong priority it gave to tackling economic problems, came as he continued to wrestle with allocating portfolios among 58 ministers named on Friday.

Mr Rao had been expected to announce the allocations by Saturday. But among the problems he met were protests from Tamil Nadu and Maharashtra - two states in which Congress did particularly well in the general election - that they had been inadequately represented in the Cabinet.

Senior officials of the Congress party said Mr Rao's refusal to give Bombay strongman Mr Sharad Pawar the home ministry was causing the hold-up in allocating portfolios in the minority government. Bombay is the capital of Maharashtra.

Mr Rao is believed to have offered the defence ministry post to Mr Pawar, who paved the way to forming the government by withdrawing from a contest for prime minister, the officials said. Mr Pawar was now insisting on the home ministry, they added.

There was widespread indignation among Congress supporters that Mr Rao had yielded to pressure from backroom associates of Mr Rajiv Gandhi to give them a prominent role in the new government.

The new government's first action in postponing elections in Punjab, due to have been held on Saturday, also came under fire. General O.P. Malhotra, governor of the Punjab, resigned in protest that he had not been consulted.

Postponing the elections at the last moment was demoralising to the people of the Punjab and would provide a boost to the Sikh separatist movements which had urged a boycott of the poll, he declared.

Hunt for 'Tiger' bomb expert

SRI LANKA'S CID is searching Colombo for a Tamil Tiger (LTTE) bomb expert named "Neelan", identified as the man who planned the attack on the Joint Operations Command (JOC) headquarters in Colombo on Friday, Mervyn de Silva reports from Colombo.

It has been established that a Tiger suicide squad slipped into the city last week. The young man who drove into the JOC building is said to be a member of this team. A similar team is suspected of having assassinated Mr Rajiv Gandhi in Tamil Nadu, south India.

The Colombo death toll is put at 40-50, including military personnel and civilians. The JOC, the army's nerve centre, has been moved to a secret camp with tighter security.

Ecological costs of restructuring worry conference

East Europeans urged to protect environment

By Ariane Genillard in Drobis, Czechoslovakia

ENVIRONMENT ministers from 30 European and North American countries have urged eastern European governments not to proceed with economic restructuring programmes at the expense of the environment.

Meeting for the first time in eastern Europe at the weekend, participants in the one-year-old Conference for Environment in Europe also emphasised the need to create a pan-European co-ordination system to disseminate environmental information and co-operate on cross-border programmes.

The conference was called against a background of acute ecological problems in eastern Europe caused largely by obsolete technology and an almost total lack of ecological concern in the former communist planned economies.

The Chernobyl nuclear accident revealed the way in which pollution could spread throughout the continent. Heavily polluting coal-fired energy and chemical plants have had a similar impact, particularly on Scandinavia.

All members supported the prompt establishment of the European Environmental Agency and the integration of non-EC countries into it. They also welcomed the initiative for a European energy charter. But while donor countries supported pan-European co-ordination to avoid duplication at the level of bilateral agreements, east European countries expressed concern that pressing regional issues could be overshadowed.

"There seems to be a contradiction between the long-term goals and the short-term needs. Hungary feels we should concentrate more on the short-term problems which are threatening our tomorrow and on what we need to face these problems," said Mr Sandor Keresztes, Hungarian minister for the environment.

World Bank experts emphasised the need to incorporate environmental issues into economic restructuring rather than the other way around. They highlighted the importance of local legislation, such as energy pricing policies, to foster environmentally beneficial investments.

Many members expressed concern about the need to prevent dumping of toxic waste in the countries with growing market economies and about the abilities of local enforcement agencies.

However, little attention was devoted to the difficulties of the "polluter-pays" approach in countries where enormous social and political costs are attached to environmental improvements.

In spite of the presence at the conference of big financial institutions and senior government representatives, the basic question of whether public or private sectors should finance the staggering environmental bill in eastern Europe was left unanswered.

EC warns Croatia and Slovenia against secession

By David Buchan in Luxembourg

THE EC issued a warning yesterday that Slovenia and Croatia could not expect early diplomatic recognition from Brussels if they carried out threats to secede from the Yugoslav federation this month.

Mr Jacques Poos, Luxembourg foreign minister, said after chairing a discussion among EC foreign ministers that there would be no high-level political contacts with any seceding Yugoslav republic.

The EC would only recognise the independence of Slovenia and Croatia "if such independence were the result of negotiations and of an internal agreement accepted by all" in Yugoslavia.

In last week's Conference on Security and Co-operation in Europe, the EC joined the US, Austria and Hungary in stepping up diplomatic pressure on Yugoslavs to stay together. But Mr Poos' remarks were the most explicit warning yet of the likely EC reaction to secession.

Croatia and Slovenia, the two richest and most westernised of the six Yugoslav republics, reaffirmed at the weekend that they would declare independence soon.

Slovenia said it would do so on Wednesday and Croatia before June 30.

The EC also restated its willingness to provide financial support to help restructure the Yugoslav economy.

● Yugoslavia's balance of payments is deteriorating and foreign currency reserves are falling because of lack of confidence in its economy, a senior banker said yesterday, Reuter reports from Belgrade.

Mr Branko Dragas, vice-governor of the National Bank, said foreign currency reserves had fallen by $5.2bn (£3.17bn) since last October – indicating they now stood at less than $5bn.

Yugoslavia needs hard currency to support the dinar and service its debt of more than $16bn, but political crisis has damaged confidence in the economy.

"This year Yugoslavs have taken more than $1.5bn from their foreign currency savings deposits, keeping this and $3bn taken from banks last year in their homes or in banks abroad because of lack of confidence in the country's economic and political system," Mr Dragas said.

He said Yugoslavia had repaid about $8m of its debt in the last 30 months, more than it had received in foreign aid in that period.

France 'must be Germany's equal'

FRANCE must be Germany's economic equal in the European Community if political union is to succeed, French Prime Minister Edith Cresson has told the German newspaper Die Welt, Reuter reports from Bonn.

The EC should not admit new members until it was united, she also said in an interview to be published today.

Unity plans would not work, without an economic balance between France and Germany.

"After all, these two countries are the pillars of unification," she declared, adding that there would be "political difficulties" if Germany's economy dominated.

The economy of the former West Germany has been the strongest in Europe for several years, but it is showing signs of strain under the post-unification task of rebuilding the crippled former East Germany.

Mrs Cresson said time was running out for the EC to achieve its goal of union and no new members, rich or poor, should join until it was politically and economically one.

"Imagine if the EC had to give a helping hand to countries like Romania and Bulgaria as it does today to Portugal or Greece," Mrs Cresson went on.

Germany's decision to reinstate Berlin as its capital would change the country's image abroad.

"Bonn was a low-profile city. "Now the time for a high profile has begun."

Striking Eurocrats hold history hostage

EC staff have a powerful weapon to defend their salaries, writes Andrew Hill

WHEN the European Community's 25,000 civil servants want some attention they go straight to the top.

So it was that a week ago, when their minds should have been on the higher goals of European political union, EC foreign ministers meeting in Luxembourg had to endure barracking from thousands of *fonctionnaires*, striking in defence of their salaries. EC interpreters were present only when the agenda turned to the pay issue.

When a pay system was thrashed out 10 years ago, nobody could have realised the expiry date of June 30 1991 would coincide with next weekend's important summit of EC leaders. So although the EC's 12 member states are the ultimate masters of Community staff's fate, the civil servants' unions have in their armoury the potential to trip up EC history at a crucial moment.

It has proved a useful weapon as Community staff – hardened with the tabloid image that they are all fat-cat Eurocrats – have always had difficulty enlisting popular sympathy for their cause.

Much of the fat-cat image is a myth, inherited from the lazier days of the late 1970s and early 1980s. With the approach of the single market, however, civil servants at all tiers within the EC have found themselves in demand, with businesses inside and outside the Community eager to milk information from the Commission, parliament, Council and Court of Justice. And, despite only gradual increases in Community staff numbers, businesses seem broadly happy with the service they receive.

Mr Dirk Hudig, who handles EC affairs in Brussels for ICI, the UK chemicals group, says: "European officials are far more accessible than most of their counterparts in national civil services." Brussels-based trade organisations also confirm that Commission officials are generally open and informative, provided they receive information in return: Eurocrats need to know what is happening outside their institutions if they are to draft effective legislation.

But it is also true the lifestyle of the EC's middle management is not one of deprivation and hardship. Even the humblest EC employee earns a gross salary of BFr60,453 (£997) a month (the most exalted – for example, the director-general of a department – earning up to BFr443,783) taxed on a scale rising from 8 to 45 per cent, and swelled by a complex range of allowances and benefits, including a 16 per cent expatriation grant.

Under the 1981 "method", as it is called, EC salaries are linked to average wage increase of the Community's national civil servants and to the average EC inflation rate. This sounds fair enough, but the Community inflation rate is calculated by EC statisticians on a basket of goods which might be bought by Eurocrats. One national official calls it "the caviar index" and member states want to revert to using the local inflation rate.

EUROPEAN Community foreign ministers agreed yesterday to sweeten a pay offer for the EC's 25,000 civil servants, in an attempt to avert further strikes, Reuter reports from Luxembourg.

Mr Jacques Poos, Luxembourg's foreign minister whose government backs the strike, said: "Negotiations have not broken down, they're continuing."

Union representatives for the EC workers were meeting last night to discuss a new offer allowing for changes in the way pay is indexed and a ceiling on rises for the highest paid.

THE EUROPEAN MARKET

Although they are happy to retain the method – "We want method not madness" was the slogan on one placard in Luxembourg last week – aggrieved employees have been claiming the continued imposition of a special "crisis levy", which was intended as a temporary measure during the recession of the early 1980s, has meant a real reduction of nearly 8 per cent in purchasing power over the decade. And that includes last year's 7.7 per cent increase in Eurocrats' salaries.

But the deeper fear is that this month's dispute may be only one symptom of a malaise in the Community's administrative policy, which has always been constrained by the need to maintain the correct proportion of officials from the 12 member states in the highest political positions.

The unions have argued that top-level salaries are failing to keep pace with the rest of Europe, and the best civil servants, economists and lawyers – particularly from the northern member states – are no longer coming to work in Brussels, Strasbourg and Luxembourg.

But ironically it is the northern countries which are most sceptical about recruiting difficulties. One national official points out that "there's a mechanism in the original [1981] system which says that where there are recruitment problems, the Commission can come forward with proposals. That mechanism has not been activated in the last 10 years".

Attracting applicants for the lower administrative positions does not seem too difficult, particularly since the Commission acted last year on Britain's suggestion that the criteria for Brussels posts should be broadened to reflect better the "generalist" tradition of the UK education system.

As a result the latest competition for 80 to 100 junior positions – starting salary BFr117,431 a month – has attracted no fewer than 17,500 applications from across the Community, creating new administrative difficulties for officials.

But staff are still worried that attempts to tighten control over workforce expenditure within the EC will lead to more national civil servants being offered top political jobs on temporary secondment – perhaps compromising Eurocrats' supposed impartiality – or will increase the number of jobs sub-contracted to outside consultants. The Commission, for example, has about 12,000 civil servants, a number which has increased by only about 300 a year since 1987. But union officials estimate a further 5,000 people are working for the Commission on contracts signed with outside companies.

A report last year by the European Court of Auditors criticised some aspects of the EC's human resources management and highlighted the risks of employing too many outsiders to carry out the tasks of Brussels *fonctionnaires*. "Non-statutory staff . . . represent a significant proportion of total Commission human resources, but their number and allocation are not subject to objective scrutiny either within the Commission or by the budgetary authority," it said.

Privately, member states and EC officials know any agreement between ministers and unions may only paper over the cracks in the staff structure. "The Council of Ministers doesn't look to the long-term, it just sees the confrontational situation," says one former senior Brussels official. "Perhaps the Commission should have been more imaginative in the way it presented the issue."

But both sides agree that to expose the roots of this dispute – for example, by attempting to rewrite the method for calculating EC salaries – would risk unearthing a host of knotty problems.

Echoes of war unite Moscow and Bonn

By David Marsh in Bonn

THE WEEKEND ceremonies marking the 50th anniversary of Germany's attack on the Soviet Union during the Second World War provided a reminder of the always poignant undertone to relations between Bonn and Moscow.

After an exchange of televised messages by Chancellor Helmut Kohl and President Mikhail Gorbachev, German President Richard von Weizsäcker laid wreaths at German and Soviet graves. President Gorbachev called on his countrymen to care for graves of German soldiers killed in the fighting.

However, more on Mr Gorbachev's mind at the moment is the parlous state of the Soviet exchequer and how Germany can help.

Mr Kohl undoubtedly feels an obligation to help Mr Gorbachev ward off economic, social and constitutional turmoil. One important reason, according to a senior Bonn minister, is Mr Kohl's gratitude to the Soviet leader for giving the green light to German unity last summer.

On the other hand the German government has no wish to consign further funds to Moscow unless there are guarantees they will be accompanied by genuine reforms.

Senior officials at the Bundesbank admit they have no complete picture of the full scale of German financial claims on the Soviet Union, which have been mounting steadily over the past year, partly connected with the unification process.

Ahead of yesterday's Group of Seven finance ministers' meeting in London, Bonn officials were making clear Germany's reluctance to agree more funding for Moscow.

One of the factors complicating links with Mr Gorbachev is the presence of 350,000 Soviet soldiers on the territory of former East Germany.

They are accompanied by hundreds of thousands of dependents (including 92,000 children) and support staff.

Mr Gerhard Stoltenberg, defence minister, was particularly irritated at being misled by the Soviet military two months ago about the presence of nuclear weapons east of the Elbe. The minister was assured by General Matvey Burlakov, head of the Soviet forces in eastern Germany, that no Soviet nuclear arms remained there. On a visit to Bonn 10 days ago, however, Mr Alexander Bessmertnykh, Soviet foreign minister, admitted this was untrue.

Mr Stoltenberg, who has argued since taking over the defence portfolio for caution in dealing with Moscow, has had his scepticism vindicated by the incident.

The Soviet troops have pledged to withdraw by the end of 1994, although Moscow has made clear it requires substantially more than the DM15bn (£5bn) already offered by Bonn to complete the process.

Moscow has recently submitted to the Germans a bill for DM20bn for the value of military infrastructure it will be leaving behind – a figure regarded by ministers as impossibly high.

Bonn will be submitting competing claims to clean up environmental damage at Soviet bases, in an effort to reduce the Soviet's demand substantially.

Mr Stoltenberg likes to point out that Moscow has a clear interest, as does Bonn, in the troops being pulled out on time. Following the introduction of the hard D-Mark in east Germany last year, the status of Soviet soldiers has switched suddenly from that of occupiers to paupers.

The minister also makes clear that Moscow needs to rely on Germany for continued goodwill if it is to win overall western pledges for financial support.

At the moment, given the extreme pressures on German public spending, Bonn is unlikely to go much further than backing step-by-step aid for the Soviet Union.

As one senior German politician, pointing to the rising budget deficit and the sudden shortfall on Germany's current account, said, only half jokingly, the country's means could soon be at an end.

Swedish poll boost for ruling party

By Robert Taylor in Stockholm

SWEDEN'S ruling Social Democrats are staging a strong political recovery three months before the country's next general election, it was revealed yesterday. The latest poll from the independent Sifo organisation gives the party 33.5 per cent of the vote – a rise of nearly 5 points in two months.

The result still leaves them far below the 43.5 per cent they won at the 1988 general election, but after over two years of record low popularity it looks at last as though Prime Minister Ingvar Carlsson is clawing back some lost ground. The question is whether the upward surge by his party will continue after the summer holidays and into the election campaign which starts in early August.

The poll gives the Moderates (conservatives) 21.5 per cent support and the Liberals 10.3 per cent.

INTERNATIONAL ECONOMIC INDICATORS: MONEY AND FINANCE

This table shows growth rates for the most widely followed measures of narrow and broad money, a representative short- and long-term interest rate series and an average equity market yield. All figures are percentages.

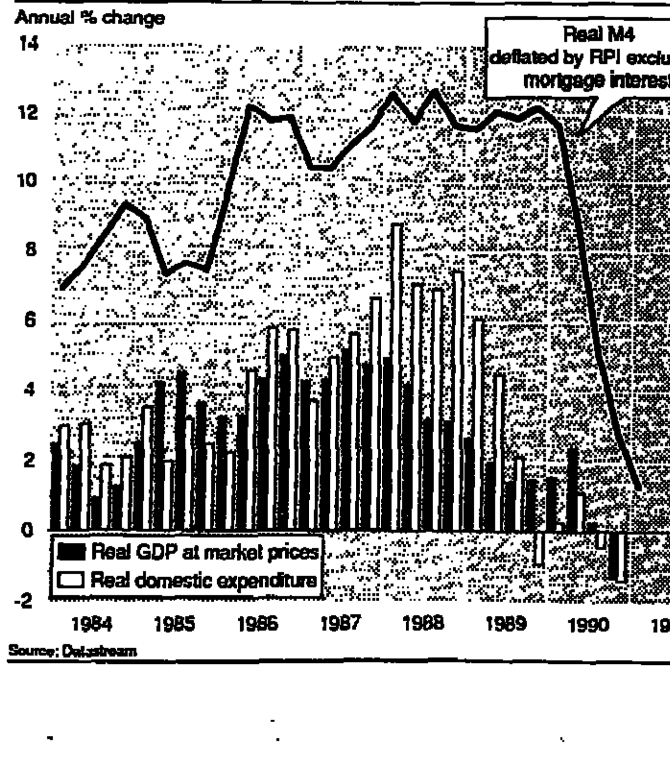
	UNITED STATES Narrow Money (M1)	Broad Money (M2)	Short Interest Rate	Long Interest Rate	Equity Market Yield	JAPAN Narrow Money (M1)	Broad Money (M2+CDs)	Short Interest Rate	Long Interest Rate	Equity Market Yield
1984	7.0	7.9	10.23	12.43	n.a.	2.9	7.7	6.26	6.80	n.a.
1985	9.2	9.1	8.01	10.62	n.a.	4.6	8.2	6.62	6.34	n.a.
1986	12.3	8.3	6.49	7.68	3.43	7.4	8.7	5.12	4.94	0.84
1987	11.6	6.5	6.82	8.38	3.12	9.1	10.3	4.15	4.21	0.55
1988	4.3	5.4	7.65	8.84	3.61	7.8	11.0	4.43	4.27	0.54
1989	0 9	3.8	8.99	8.49	3.43	4.5	10.0	5.31	5.11	0.48
1990	3.7	5.2	8.09	8.55	3.60	3.2	11.5	7.89	7.27	0.85
2nd qtr.1990	4.0	6.2	8.23	8.73	3.43	2.7	12.8	7.35	7.20	0.59
3rd qtr.1990	4.6	5.2	7.94	8.74	3.62	3.3	12.3	7.87	7.96	0.69
4th qtr.1990	4.2	3.8	7.88	8.31	3.86	5.1	9.3	8.19	7.16	0.80
1st qtr.1991	4.4	3.1	6.69	8.01	3.48	1.5	8.0	7.96	6.54	0.75
June 1990	4.8	6.0	8.14	8.47	3.33	8.8	12.4	7.29	6.47	0.58
July	4.0	5.3	7.99	8.47	3.35	3.9	11.9	7.53	6.83	0.60
August	4.7	5.2	7.87	8.74	3.68	3.8	11.9	7.83	7.58	0.70
September	5.1	5.0	7.96	8.89	3.86	2.4	13.2	8.25	8.04	0.77
October	4.2	4.4	7.98	8.72	3.96	3.9	10.9	8.18	7.66	0.80
November	4.4	3.7	7.91	8.39	3.88	7.1	9.6	8.22	7.35	0.82
December	4.0	3.2	7.76	8.05	3.74	4.4	7.5	8.17	6.79	0.80
January 1991	3.9	3.0	7.09	8.07	3.79	1.8	6.0	8.07	6.59	0.80
February	4.4	3.1	6.50	7.84	3.37	0.6	5.2	7.89	6.39	0.74
March	4.8	3.2	6.40	8.10	3.25	2.1	6.9	7.91	6.63	0.70
April	4.3	3.1	6.08	8.03	3.17			7.75	6.69	0.70
May	5.5	3.4	5.92	8.07	3.20			7.72	6.64	0.71

	GERMANY Narrow Money (M1)	Broad Money (M3)	Short Interest Rate	Long Interest Rate	Equity Market Yield	FRANCE Narrow Money (M1)	Broad Money (M3)	Short Interest Rate	Long Interest Rate	Equity Market Yield
1984	3.3	3.8	5.95	7.86	n.a.	9.7	10.9	11.71	13.33	n.a.
1985	4.4	5.1	5.40	7.09	n.a.	6.2	7.4	9.98	11.74	n.a.
1986	9.9	8.3	4.57	6.19	1.79	6.9	6.7	7.73	8.74	2.65
1987	9.0	7.3	3.96	6.33	2.21	4.1	9.8	8.20	9.59	2.75
1988	9.8	6.4	4.28	6.58	2.61	3.8	8.4	7.68	9.02	3.69
1989	6.3	5.7	7.03	7.02	2.22	8.1	9.4	9.33	8.79	2.88
1990	4.5	4.5	8.45	8.63	2.11	3.3	8.4	10.30	9.87	3.19
2nd qtr.1990	3.8	4.0	8.24	8.60	1.92	7.3	8.9	9.90	9.63	2.81
3rd qtr.1990	4.8	4.2	8.32	8.68	2.14	3.8	7.7	10.13	9.94	3.38
4th qtr.1990	6.2	5.4	8.82	8.92	2.61	3.3	8.4	10.03	10.07	3.77
1st qtr.1991	6.1	5.4	9.18	8.43	2.51	2.5	7.8	9.85	9.30	3.64
June 1990	3.1	4.3	8.25	8.30	1.97	7.3	8.9	10.01	9.68	2.90
July	4.2	3.9	8.21	8.09	1.89	3.2	8.0	9.98	9.56	2.97
August	5.2	3.9	8.38	8.52	2.16	2.9	7.8	10.12	10.08	3.43
September	5.1	4.7	8.38	8.88	2.41	3.8	7.7	10.28	10.44	3.73
October	5.7	5.3	8.53	8.72	2.50	0.8	7.4	9.99	10.38	3.75
November	6.1	5.5	8.78	8.68	2.54	0.6	7.5	9.94	10.16	3.78
December	6.9	5.3	9.15	8.89	2.50	3.3	8.4	10.17	9.89	3.79
January 1991	6.4	5.1	9.27	8.74	2.67	-0.1	7.0	10.21	9.75	3.93
February	5.1	5.4	8.98	8.25	2.45	1.7	7.5	9.70	9.11	3.62
March	6.8	5.7	9.09	8.28	2.38	2.5	7.8	9.43	9.04	3.36
April	4.5	5.6	9.18	8.20	2.30	3.3	7.6	9.34	8.88	3.46
May			9.08	8.30	2.25			9.24	8.86	3.44

	ITALY Narrow Money (M1)	Broad Money (M2)	Short Interest Rate	Long Interest Rate	Equity Market Yield	UNITED KINGDOM Narrow Money (M0)	Broad Money (M4)	Short Interest Rate	Long Interest Rate	Equity Market Yield	
1984	12.5	12.4	15.87	15.60	n.a.	5.5	12.9	9.95	11.33	n.a.	1984
1985	13.7	14.0	14.03	13.71	n.a.	4.7	13.2	12.21	11.03	n.a.	1985
1986	10.4	9.0	12.95	11.47	1.41	4.0	15.3	10.93	9.97	4.35	1986
1987	10.5	11.0	11.06	10.58	1.94	4.7	14.6	9.69	9.52	3.60	1987
1988	7.5	8.1	10.99	10.54	2.71	6.7	17.0	10.32	9.69	4.48	1988
1989	8.2	10.1	12.16	11.61	2.46	5.9	17.8	13.88	10.30	4.36	1989
1990	8.8	9.4	11.74	11.87	2.84	5.3	16.4	14.82	11.85	5.07	1990
2nd qtr.1990	8.8	9.0	11.68	11.83	2.46	6.9	17.7	15.10	12.29	4.91	2nd qtr.1990
3rd qtr.1990	7.8	8.6	10.99	11.85	2.81	4.9	16.0	14.94	11.78	5.21	3rd qtr.1990
4th qtr.1990	8.2	9.6	11.59	11.74	3.55	3.3	13.7	13.80	10.95	5.56	4th qtr.1990
1st qtr.1991		9.0	12.13	12.03	3.69	2.9	10.7	13.20	10.30	5.22	1st qtr.1991
June 1990	8.2	8.8	11.28	11.32	2.38	6.3	17.5	14.98	11.59	4.75	1990 June
July	7.4	8.3	11.16	11.28	2.46	5.5	17.0	14.94	11.67	4.81	July
August	7.0	8.2	11.31	11.79	2.86	4.8	16.0	14.97	11.96	5.26	August
September	8.8	9.4	10.49	11.60	3.14	4.5	15.0	14.91	11.91	5.81	September
October	8.9	9.8	10.74	11.58	3.36	3.9	14.4	14.00	11.56	5.61	October
November	8.4	9.6	11.69	11.69	3.67	3.2	14.3	13.82	11.25	5.61	November
December	7.6	9.4	12.34	11.98	3.65	2.7	12.3	13.77	10.77	5.44	December
January 1991	6.6	8.4	12.24	12.04	3.96	3.4	11.3	13.95	10.53	5.60	1991 January
February	7.2	9.1	12.25	11.90	3.64	2.8	10.9	13.24	10.12	5.19	February
March		9.6	11.92	12.16	3.43	2.6	9.9	12.41	10.25	4.82	March
April		8.9	11.49	11.90	3.36	1.6	10.0	11.95	10.17	4.74	April
May		8.3	11.13	10.91	3.24	1.6	9.5	11.52	10.32	4.85	May

Monetary growth rates: show the percentage change over the corresponding period in the previous year, and are positive unless otherwise stated. All growth rates refer to the seasonally adjusted series except for Italy. German monetary statistics now form a continuous pan-German series. Monetary data supplied by Datastream and WEFA from central bank sources. Short-term interest rates: period averages of US-90 day commercial paper, Japan-3 month certificates of deposit, Germany-3 month money, France-3 month money, Italy-3 month Euro-Lira, UK-3 month Libor. Source: Goldman Sachs. Long-term interest rates: period average yields on long-term benchmark government bonds. Source: Atlas/TFN. Equity market yield: period averages of the gross dividend yield on the relevant FT-A world index.

The Boom and its aftermath in the UK



Source: Datastream

The revenge of the monetarists

ONE of the myths about British economic policy is that entry into the exchange rate mechanism of the European Monetary System represented a repudiation of monetarism. This is incorrect. It represented a rejection of domestic monetarism and put in place the Bundesbank's version.

There were three assumptions underlying this switch: first, that exchange rate stability is a good in itself; second, that the Bundesbank's pragmatic monetarism is more credible than any policy that might be pursued by the British monetary authorities; and, third, that the benefits of that credibility outweigh the costs of importing a monetary policy dedicated to stabilising a different economy and one undergoing, at the moment of sterling's entry into the ERM, the real economic shock of unification.

This stance might be labelled defeatist. As the chart suggests, defeatism might also be regarded as realistic. For the failures of British monetary policy in the second half of the 1980s are startling.

In the first half of the 1980s the Treasury targeted broad money (then M3) quite closely. That targeting led to a huge appreciation of sterling and a rapid reduction in inflation. But, largely because of financial liberalisation, targets had to be constantly adjusted upwards. In the end the Treasury abandoned the targeting of broad money in 1985.

This decision was greeted with relief by most British economists. Warnings were uttered, however, by a small number of monetarist economists; Tim Congdon, then at Shearson Lehman and now at Gerrard and National, being one and David Smith, at Williams de Broë, being another.

The annual growth of M4 in real terms (deflated by the retail price index, less mortgage interest) accelerated in 1986 and remained at around 12 per cent a year until the end of 1989.

The annual growth of real domestic expenditure rose shortly thereafter, to reach a peak of over 8 per cent in the year to the first quarter of 1988. Depressingly for those who believed in a supply-side miracle, the growth of gross domestic product failed to keep up, the increase in the external deficit making up the difference.

While the decision to switch from paying attention only to broad money to ignoring it almost completely – one the Bundesbank would surely never have made – looks decidedly costly in retrospect, the chart also shows how non-mechanically such information must be interpreted. A credit-boom associated with rising asset prices is a warning signal, but a deflationary monetary policy, of the kind instituted in late 1988, will reduce output before it affects monetary growth.

The main reason for this is distress borrowing in the early stages of a disinflation. In the UK's case, the collapse in the growth of broad money in real terms started in the course of 1989, well after the decline in the growth both of real domestic demand and real GDP.

The chart does, however, highlight one other depressing point about the UK economy. The more competitive and open an economy, the more reductions in the growth of real domestic expenditure fall on the external balance and not on GDP. In the UK, however, almost all of the adjustment fell on GDP. Given the decline in the rate of growth of domestic expenditure, one might have hoped for a greater improvement in the external balance and a smaller decline in GDP than actually occurred in 1989, 1990 and 1991.

The UK authorities must now hope that the Bundesbank's monetary policy, whatever that turns out to be, will prove stabilising for the UK economy in the medium to long term. In the meantime, one can begin to understand why the House of Commons Treasury and Civil Service committee have recently called for evidence on the Treasury's forecasting record. That august body did, after all, miss both the heady boom of 1988 and the collapse of 1991. But it is fair to note that it was in excellent company throughout.

One of its mistakes, as Tim Congdon argues in the Gerard and National monthly review for June 1991, may have been the failure to appreciate the role of monetary variables. If so it will not be able to act independently on such a mistake again. But it seems rather peculiar that the shift from a policy without any serious pretence to monetarism (since the Treasury's favoured monetary target of the second half of the 1980s – M0, narrow money – certainly has no causal role), to one that follows the Bundesbank should be regarded as an abandonment of monetarism. It might be better regarded as justified defeatism about the political and technical feasibility of domestic monetarism.

Martin Wolf

Slowdown seen in company cost cuts

By Alice Rawsthorn

COST CUTTING in UK industry may be slowing down, according to a study of business attitudes commissioned by KPMG Management Consulting.

A quarter of the companies in the study said they had been forced to cut costs by shedding staff or closing capacity during the past year.

Only one in 10, however, said they were still cutting costs or that they planned to do so in the future. Moreover, 30 per cent of the companies were expanding, compared with just 18 per cent at this time last year.

The study questioned 200 businesses about their performance during the recession and their future investment plans. Companies in the north of England and the Midlands tended to be more optimistic than those in the south. Two thirds of the Midlands companies questioned said they were either introducing new products or moving into new markets.

More than a quarter of the Midlands companies expanded last year. A similar proportion of companies in the north and Scotland were expanding.

The recession seems to have prompted many companies to review their long-term strategies. Two thirds of those questioned said they had already changed strategies or were about to change.

Many companies also expect to change the focus of their investment during the next few years. Customer care and product quality were cited as the most important areas for future investment, whereas a number of companies planned to reduce expenditure on advertising and promotion.

Three quarters of companies confirmed their intention to increase investment in customer care in the next two years. No companies planned to reduce investment in this area or in product quality. Resource management issues such as financial control, planning and training were also regarded as important.

Advertising and promotion were seen as less important. Only a quarter of the companies surveyed said they planned to increase marketing budgets during the next two years. Nearly one in five intended to reduce expenditure in this area.

Many companies have already cut marketing expenditure in the past year, which has created serious problems for the advertising industry.

Coping with a changing market - A survey of UK business opinion. KPMG Management Consulting, 1 Puddle Dock, London EC4V 3PD. Free.

Labour on the offensive against Conservatives' economic record

By Ivo Dawnay, Political Correspondent

LABOUR will today warn that the Conservatives may abolish the wages councils that govern the pay of 2.5m low paid workers. The warning is part of a sustained counter-attack on Tory criticism of its plan for a national minimum wage.

Last night, Mr Tony Blair, the party's employment spokesman, returned to the offensive after a week of Tory attacks, by homing in on an upbeat review of the economic outlook made by Mr Norman Lamont, the chancellor, in a BBC television interview. "Norman Lamont has not one crumb of comfort for Britain's 2.25m unemployed," he said.

Mr Blair's comments come as part of a week-long programme of Labour initiatives aimed at hammering home what it argues to be government complacency over the impact of the recession on jobs.

Yesterday both Mr John Smith, the shadow chancellor, and Mr Henry McLeish, the junior employment spokesman, both released dossiers alleging false Tory claims on both the economy and employment.

In Westminster today, Mr Blair will develop the charges by warning that Mr Michael Howard, the employment secretary, will block efforts by the European Council in Brussels on Wednesday to establish uniform rights for working women.

The Labour attacks come after the Tories last week used the Commons' chamber and a party political broadcast to warn that Labour's minimum-wage policy would cause a big surge in unemployment. They also costed Labour's policy commitments as threatening to add 13p to income-tax rates.

That charge provoked a four-page dossier of counter-charges from Mr Smith, who said the Conservatives' attempts to misrepresent Labour's policies were "an unsubtle, if expensive, attempt to divert public attention from the economic mess government policies have caused."

His paper – entitled "Economic with The Truth" – outlined nine areas from growth figures to inflation where he alleged the government had wilfully misled the public.

On Thursday, Labour will attempt to undermine an important keynote speech by Mr John Major, the prime minister, on Toryism in the 1990s by switching its focus to the quality of life. Mr Roy Hattersley, the Labour deputy leader, will open what party workers say is the new "second front" of Labour's "Costing the Conservatives" campaign by attacking the government's record on various public issues.

Field reselection stirs further controversy

By Ian Hamilton Fazey, Northern Correspondent

THE Labour leadership looks set for a further crackdown on leftwingers in Birkenhead after complaints at the weekend about as vote that reinstated Mr Frank Field, the sitting MP, as candidate in the general election.

Officials at Labour's London headquarters said there was certain to be anger at Wednesday's national executive committee meeting over remarks by a constituency party officer saying Mr Field may now face a "another four years of feeling sick" because of intimidation. The comment by Mr Paddy Reynolds, secretary of the constituency party, referred to the MP's admission last week that party meetings were often so tense that he vomited with fear before them.

Endorsement of Mr Field's reselection will come next month after the party's organisation committee examines complaints from both left and right over the conduct of Saturday's reselection ballot.

However, there is no doubt the party leadership will uphold the result of the vote which was held under the supervision of national officials.

Mr Field defeated Mr Paul Davies, a transport union local official, by 53 per cent to 45.6 per cent of the constituency's electoral college, reversing the result of 18 months ago.

The national executive ordered a re-run after alleged infiltration of union branches by supporters of Militant Tendency and Socialist Organiser, two Trotskyite organisations, to bolster Mr Davies' support.

As this week's voting took place Mr Davies alleged party rules were interpreted selectively to allow some of Mr Field's supporters to vote while his own were disqualified.

He claimed that Field-supporting delegates from two branches of the GMB general workers' union, the Co-operative Party and the Christian Socialist Movement were allowed to vote even though they had not attended local party meetings for more than a year.

He also said the local party had no record of 16 individual Field supporters paying their subscriptions, so they should have been disqualified. The overall effect on both sections of the college was about six percentage points in Mr Field's favour.

Mr Field will make counter-allegations to the national executive of attempted manipulation of union block votes by Mr Davies' supporters. He said he wanted to ensure future reselection of MPs was based on "one member, one vote".

Mr Davies said that further attempts would be made to deselect Mr Field in the next parliament, although he himself might not try again.

LIVERPOOL'S refuse collectors will vote this morning whether to accept an offer of bonuses and extra payments to clear the backlog of rubbish before Onyx, a French-owned private contractor, takes over the service next month. The vote is being seen as a test of the unions' resolve to continue their fight against job cuts at the Labour-led city council. The waste collectors' decision will be followed by a parliamentary debate on the governing of the city called by the Liberal Democrats. Mr David Alton, Liberal Democrat MP for Liverpool Mossley Hill will open the debate.

Frank Field: promised by a constituency official 'four more years of feeling sick'

Merseyside recession shows signs of levelling

By Ian Hamilton Fazey

THE RECESSION may be bottoming-out in Merseyside's economy, according to a Merseyside Chamber of Commerce survey published today.

The trend for orders turned upwards slightly, although export business was down for deliveries and orders. However, a more hopeful sign was that a sharp shedding of labour in the last quarter of last year has abated.

While 35 per cent of companies surveyed in December planned to sack more people, the proportion which did so was 29 per cent. In contrast, 17 per cent planning to recruit stuck to their plans, with a similar proportion forecasting more recruitment soon.

Matching vacancies to the large pool of unskilled unemployed remains a problem. There are also widespread reports of skill shortages in managerial, professional and craftsman categories.

Investment plans shelved six months ago remain on hold for most of those involved. But confidence is picking up, with only 19 per cent forecasting a fall in turnover in the next year and 41 per cent predicting better profits.

Scotch industry in tax protest

By Philip Rawstorne

LEADERS of the Scotch whisky industry have protested to the government about a proposed deal on European Community tax harmonisation that would substantially raise the drink's price in Spain, Italy, Portugal and Greece.

Mr Anthony Tennant, chairman of Guinness, has written to Mr Norman Lamont, the chancellor, and Mr Peter Lilley, trade secretary, urging them to resist plans which will be considered at a meeting of the EC economic and finance committee in Luxembourg today. Scottish MPs are expected to raise the industry's complaints in the Commons.

The industry, angered by excise duty increases in the past two Budgets, believes the proposals would raise Scotch prices by about £2.60 a bottle in the four countries while doing nothing to cut prices in Britain.

The proposals, leaked from Brussels and so far unconfirmed by the UK government, are said to include a plan by France and Italy to zero-rate the tax on wine when the single market comes into effect. Beer would continue to have a lower excise rate than spirits.

Mr Tennant said yesterday: "Such moves would be a real kick in the teeth for the industry. They would have a disastrous effect on some of our most promising export markets." The EC accounted for about a third of the industry's £1.6bn exports last year. Spain, Italy and Greece are among the industry's fastest-growing markets.

The industry has been pressing, with limited success, for an end to discriminatory taxation on exports to South Korea and Taiwan. "The fact that our own government persists in discriminating against Scotch in its own taxation policy scarcely helps our case for fairer treatment in those markets," Mr Tennant said.

London Zoo looks at theme park plan

By Philip Rawstorne

A £50m plan to turn the financially-troubled London Zoo into a theme park has been put forward by Heritage Group, a London-based leisure and property consultancy.

The scheme, which would involve removing many of the animals to Whipsnade Zoo in Bedfordshire and converting the Regent's Park site into a conservation park, is to be considered by the zoo's board on Wednesday. The project will also be examined by Mr David Trippier, the environment minister.

The zoo said yesterday that the Heritage Group proposal, one of a number of development schemes under discussion, was an extension of the zoo's own plans to transform the site.

These would include the creation of an African rain forest with a family of gorillas and a Chinese mountain complete with pandas.

The zoo said: "The money would enable us to do things on a grander scale and to include the listed Mappin Terraces which we had left out of our plans because of the cost of development."

Up to £6m of government money would still be needed to transfer animals to Whipsnade and to improve facilities there.

The zoo has also been seeking a further £12m from the government to help fund refurbishment of the site and to meet running costs but ministers have so far refused to grant extra cash.

Mr David Jones, the zoo's director, warned last week that £2m was needed from the government by July 9 to avoid closure of the zoo in September.

American Home cuts 520 jobs

By Clive Cookson

AMERICAN Home Products, the US health care group, is to reduce its UK workforce by at least 530 over the next two years.

Its factory in Wrafton, north Devon, will close with the loss of 450 jobs, and 70 jobs will go at the group's factory in Havant, Hampshire.

The cuts result from a review of AHP's manufacturing and distribution operations in Europe in preparation for the EC single market after 1992.

According to Pharmaceutical Business News, a Financial Times newsletter, the group will reduce the number of European plants from 12 to seven by the middle of 1993.

Mr Don Barrett, director of corporate affairs for Wyeth Laboratories, an AHP subsidiary, said a structure based on high-volume, specialist manufacturing sites supplying the whole European market would be essential if the company was to continue to be successful.

At present Wyeth manufactures prescription drugs and the SMA brand of baby milk at Havant. Whitehall Laboratories, another AHP subsidiary, makes non-prescription health care products and toiletries at Wrafton.

Under the restructuring, Havant will become a European centre for pharmaceutical manufacturing, while baby milk production will be transferred to the company's Askeaton plant in the Republic of Ireland. The effect of this will be to reduce the Havant workforce from 650 to 580 over the next two years.

When Wrafton closes in 1993, some of its work will be transferred to Havant and some will go to other AHP plants in Europe.

The other four AHP plants scheduled for closure are in Germany, Spain, Portugal and France.

CDs outsell vinyl LPs by two-to-one

By Michael Skapinker

TRADE DELIVERIES OF RECORDINGS

	Dec 1989	Dec 1990	Change %
CDs			
Units	41.7m	50.9m	+22.1
Value (£)	230.7m	273.4m	+18.5
Singles			
Units	61.1m	58.5m	−4.3
Value (£)	80.3m	77.8m	−3.1
LPs			
Units	37.9m	24.5m	−35.4
Value (£)	118.0m	79.5m	−32.6
Cassettes			
Units	83.0m	74.3m	−10.5
Value (£)	251.8m	242.7m	−3.6
Total Albums			
Units	162.6m	149.6m	−8.0
Value (£)	600.5m	595.6m	−0.8
Total Value (£)	680.8m	673.4m	−1.1%

Source: BPI

COMPACT DISCS outsold long-playing vinyl records in the UK by more than two-to-one last year, according to figures from the British Phonographic Industry (BPI).

In 1989, unit sales of compact discs had been only 10 per cent higher than those for LPs.

The BPI, which represents record companies in the UK, said that 50.9m CDs were sold last year, a 22.1 per cent increase on 1989. Sales of LPs totalled 24.5m, a 35.4 per cent fall on 1989.

Sales of records have, however, remained resilient in the UK compared with countries such as the US and Japan, where the long-playing record has virtually disappeared.

Cassette tapes remained the most popular musical format in the UK last year, with unit sales of 74.3m. This, however, represented a 10.5 per cent fall on 1989.

The wholesale value of CDs last year surpassed that of cassettes for the first time, the BPI said. The value of CD trade deliveries was £273.4m, up 18.5 per cent on 1989. The wholesale value of cassette sales was £242.7m, a 3.6 per cent drop on the previous year. Trade deliveries of LPs were worth £79.5m.

More people found to give bangers the chop

By Guy de Jonquières, Consumer Industries Editor

THE BANGER, the burger and the meat pie are being relegated to a stagnant or declining market among poorer, mainly male, consumers. More affluent households are turning increasingly to prepared meat dishes such as Chicken Kiev and meat with pasta, according to a survey.

Consumers in the lowest D and E socio-economic categories are three times more likely to eat sausages once a week than those in the upper A and B groups.

Twice as many men eat sausages two or three times a week as women – half of whom say they never consume them, finds the survey by the Leatherhead Food Research Association.

Broadly similar trends are affecting the markets for meat pies and burgers. Seventy per cent of adults say they eat burgers once a month at most, and among A and B groups the proportion is 75 per cent.

The waning popularity of all three foods is blamed on growing interest in healthy eating.

The introduction of low-fat burgers and sausages does not yet appear to have revived demand.

The survey finds that prepared or "ready" meals, which include Italian, Chinese and Indian dishes, are most popular among the middle-class C1 and C2 groups. Consumption is about equally divided between men and women.

Demand is strongest among adults aged 24 or under, who are also the main consumers of burgers. Those aged over 65 rarely purchase ready meals, partly because few own the freezers needed to store them.

In spite of their growing popularity, ready meals do not seem to be considered particularly good value. More than 60 per cent of those surveyed said they did not provide a proper meal, and 45 per cent thought them too expensive for everyday use.

The UK Value-Added Meat and Poultry Products Report. Leatherhead Food Research Associates, Randalls Road, Leatherhead KT22 7RY.

Banks start initiative over fraud

LEADING clearing banks have launched an information-sharing initiative to crack down on bank fraud, David Lascelles writes.

This follows a steep rise in white-collar crime. Last year the banks lost £31.3m in cheque-card fraud and nearly £60m on credit card fraud.

The initiative, which is being undertaken in co-operation with the City of London Fraud Squad, will enable banks to share information about actual or suspected fraud techniques.

Higher education move welcomed

THE NATIONAL Conference of University Professors, an association of 500 professors, meeting at the weekend, welcomed the government's intention of expanding access to higher education and abolishing the distinction between universities and polytechnics.

The conference called on the government to provide the resources required to increase student numbers.

Toolmakers seen as out of touch

By Andrew Baxter

EFFORTS BY British machine-tool manufacturers to develop their international sales are not keeping up with changing competitive trends in the industry, according to Professor Stephen Young of Strathclyde International Business Unit (SIBU).

As factory automation moves towards a new era of computer-integrated manufacturing (CIM) and machine tools become part of flexible manufacturing systems, producers will increasingly emphasise pre-sale and after-sales activities such as consultancy and software, he says.

This trend argues for a move away from agents and distributors towards sales subsidiaries and a new type of sales, engineering and consultancy subsidiary, Prof Young told a conference on UK Companies and the Globalisation of Business in London.

Maintaining overseas sales is vitally important for the UK machine-tool industry, particular at a time of deep recession in the domestic market.

Exports last year rose 23 per cent to £489.5m, and for the first time in a decade the UK had a trade surplus with the rest of the European Community.

Recent research by the SIBU, based on interviews with UK-based producers, showed that agents and distributors have been of overwhelming importance as distribution channels for exporters into continental Europe, whereas more direct involvement in international marketing will be necessary for success.

However, an SIBU paper on European marketing and distribution found that while UK-based companies increasingly recognised the need for sales subsidiaries, joint selling arrangements and reciprocal tie-ups in continental Europe, the extent of activity in this area was still rather limited.

In contrast, Prof Young noted a growth in the number of sales subsidiaries, especially of German and Swiss origin, established by foreign machine-tool producers in the UK. Of 45 importers who took part in an SIBU survey this year, 22 had a sales subsidiary, either alone or in combination with agents and distributors.

The implications for the UK, Prof Young suggests, include increased imports and reduced exports. But EC trade policies could lead to further Japanese investment in the 1990s and increased local sourcing which, with greater exports, could turn the balance around. Over the past decade imports have ranged from 47 per cent to 58 per cent of UK consumption.

The conference was organised by the Economic and Social Research Council and the Royal Institute of International Affairs.

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ECONOMY

Lamont under pressure to cut interest rates

By Rachel Johnson and Peter Norman

MR Norman Lamont, the chancellor of the exchequer, will be under renewed pressure to announce an early cut in interest rates after a survey which has provided no signs yet of a recovery in demand and output in UK manufacturing industry.

The latest Confederation of British Industry monthly trends survey, published today, shows order books are continuing to weaken, and that expectations of price increases are at their lowest for 24 years.

However, speaking on BBC Television yesterday, Mr Lamont gave no indication that he was planning to reduce bank base rates below their current 11.5 per cent level. He said he believed total output in the economy would recover in the second half of this year. The cuts in base rates from 15 per cent last October "have not begun to have their effect," the chancellor said.

Norman Lamont

Although he admitted that times were tough and difficult, the chancellor said there were "good signs" in the economy. The labour market was more flexible, with wage increases decelerating, and the government was "making dramatically good progress on inflation".

According to Mr David Wigglesworth, chairman of the CBI's economic situation committee, an immediate easing of monetary conditions is justified by its survey of 1,445 manufacturing companies, which was carried out between May 29 and June 19.

"The continued weakness of order books is imposing significant restraints on the ability of manufacturers to increase their prices and this heralds a further fall in private sector inflation," he says. Cuts in interest rates are "urgently needed to lift business confidence and to reduce the cost of financing investment in new equipment", he adds.

The survey shows 66 per cent of manufacturers reporting order books below normal and only 8 per cent saying they are above normal.

The difference between the two, which gives the trend, gives a negative balance of 58 per cent, slightly less weak than the previous survey's 61 per cent but much worse than the 22 per cent negative balance of June last year.

The export picture was also poor, with a negative balance of 33 per cent reporting export order books below normal.

Output, however, is expected to decline at a slower rate over the next four months. A negative balance of 11 per cent of companies said they expected volume to fall over the next four months, compared with an 18 per cent negative balance in the previous survey.

Mr Wigglesworth says the survey results suggest "the economic downturn appears to be slackening, but manufacturers do not yet see any sign of an upturn." This conclusion is echoed today by Mr David Kern, NatWest Bank's chief economist and chairman of the Society of Business Economists' forecasting group.

"The UK economy is still in recession, with output likely to remain flat in the third quarter of 1991, and only a modest upturn expected in the fourth quarter," he says.

The recovery later this year would depend on lower interest rates and lower inflation boosting consumer confidence enough to trigger growth in spending. The group predicts gross domestic product to decline by 2.2 per cent this year, compared with the official forecast of a 2 per cent decline.

Left takes control of NUM executive

By Lisa Wood and John Gapper

LEFTWING supporters of Mr Arthur Scargill, president of the National Union of Mineworkers, have gained firm control of the union's national executive committee.

The move makes any change in the NUM's refusal to negotiate with British Coal on pay unlikely.

Results of a ballot for membership of the executive committee, which supervises the union, will be officially announced today.

Union representatives confirmed yesterday that the left would have a clear 9-5 majority, its first since the union was set up nearly 50 years ago.

The committee's composition makes it unlikely that the union will shift from its refusal to negotiate pay with British Coal because of the corporation's insistence that the rival Union of Democratic Mineworkers should negotiate on the NUM's behalf at pits where the UDM is in the majority.

At last year's annual union conference the executive, then with a small majority for the right, recommended a change in this tactic. However, the policy was maintained because the conference voted for Mr Scargill's stance.

Two executive committee members who publicly questioned Mr Scargill's leadership have lost their seats in the ballot. They are Mr Roy Jackson, who represented the Lancashire area, and Mr Ken Hollingsworth, representative of the Cosa white-collar section. They will be replaced by Mr Bill Pye and Mr David Murdoch.

The north-east, which formerly had two executive members, will now have only one because of contraction in the industry. He will be Mr David Hopper, who defeated Mr Alan Cummins. The ballot result will further strengthen Mr Scargill's position.

Last week he was acquitted of charges of failing to ensure that the union returned accurate annual accounts after the prosecution case collapsed at Sheffield magistrates' court.

The NUM also confirmed yesterday that the barrister who conducted the inquiry into its finances is being sued for alleged breach of confidence following publication of his report in a paperback book last October.

Writs have been served on Mr Gavin Lightman QC and on his publisher Penguin Books, a company belonging to Pearson which owns the Financial Times. The writs claim "damages for breach of legal confidence following the unauthorised publication by Penguin of the Lightman Report on the NUM".

The decision to sue arises from a resolution at a special delegate conference last October which instructed the executive committee of the union to take action.

Mr Lightman was commissioned by the NUM to conduct an inquiry into the handling of union affairs during and after the year-long miners' strike that began in 1984, following allegations in newspapers about irregularities.

The report was presented to the NUM in July 1990 and was published last October.

Arthur Scargill

Recruitment of former offenders is urged

By Alan Pike, Social Affairs Correspondent

A NATIONAL campaign to tackle one of the most difficult areas of employment – the recruitment of ex-offenders – will be launched today.

Politicians from all parties, the archbishops of Canterbury and York and the Confederation of British Industry are among the backers of an Offender Employment Charter organised by the Apex Trust, the national organisation for the employment of ex-offenders.

Studies indicate that people are three times more likely to re-offend if they become unemployed when leaving prison.

Yet only about 10 per cent of the 100,000 people discharged from prison each year have jobs to go to, and many employers are reluctant to employ former prisoners.

The launch of the charter comes at a time when cuts in the government's training budgets are leading to the closure of many training schemes for ex-offenders.

By August, 16 of the 22 training centres run by the Apex Trust, the charity which provides training for the long-term unemployed, will have been forced to close.

An Apex trust survey earlier this year showed that nearly two-thirds of private sector companies had no formal equal opportunities policy, and 94 per cent of those with policies failed to include the needs of ex-offenders in them.

The survey also found that 15 per cent of private sector employers, and 3 per cent of those in the public sector, would not employ people with criminal records under any circumstances; 50 per cent of private companies would not employ applicants who had committed offences against other employers.

Brokers may reduce research services

By Robert Peston

LONDON'S biggest securities firms have been holding secret meetings to discuss whether to reduce the service they offer investment institutions and whether to draw up a code of practice to prevent companies passing on inside information to analysts.

In wide-ranging discussions of how to improve their poor profitability, they debated whether a broker's clients should receive all its research only if the clients paid a specified amount in dealing commissions.

However, the firms denied they were trying to establish a common policy. They said the discussions were informal. Mr Nick Stuchfield, head of equity trading at BZW, said each firm had its own ideas on these questions.

There have been two meetings – in March and earlier this month – attended by the heads of research departments at BZW, County NatWest, Warburg Securities, James Capel, Kleinwort Benson and UBS Phillips & Drew.

The first meeting, which Warburg did not attend, concentrated on how to improve the profits brokers make from the enormous investments they have all put into research-ing companies and economies. BZW told the meeting that in 1990 it produced 64m printed pages of research.

Notes taken at the meeting by one of the brokers show there were conversations about how to make research more exclusive, in order to increase its value to clients spending the most.

There was also a debate about whether brokers should give fewer of their reports to the press and withdraw from electronic information services such as First Call, which provides electronically a round-up of company comments generated by brokers' analysts .

BZW has withdrawn from First Call. Mr Stuchfield said that clients became upset if they read about research in a newspaper before receiving it.

For the past five years, since the stock market was deregulated in 1986, brokers have made small profits or big losses. Stock Exchange figures show that in 1990 London brokers lost £353m in total.

Mr Stephen Carr, head of research at Warburg Securities, said there was no question of the brokers taking a common stance on how to distribute research.

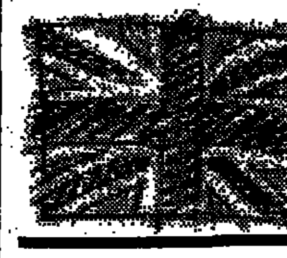
However, he said there was more common ground on an issue raised in the second meeting, which was how to pre-empt the threat that an investment analyst would be charged with insider trading as a result of being given price sensitive information by a company he or she was researching.

When companies become aware that brokers are forecasting that they will make profits very different from the likely outcome, they have traditionally contacted analysts and suggested they change their forecasts. Companies believe their reputations will be badly damaged if their results come as a shock to investors.

An analyst who is told that profits are going to be far worse than the market believes may encourage clients to sell the shares. However, the analyst could then be accused of involvement in insider trading, since he or she has been given price sensitive information not available to all shareholders.

The brokers are concerned that the Department of Trade and Industry is keen to crack down on this practice and may make an example of one of them in the courts. So at the brokers' last meeting there was a discussion of whether companies should be encouraged to broadcast price sensitive information to all investors simultaneously.

BRITAIN IN BRIEF



Executive of Aslef calls off ballot

Aslef, the train drivers' union, last night called off a proposed ballot of its members for industrial action over job losses at British Rail.

The ballot had been ordered by delegates at the union's recent Blackpool conference, and was prompted by the reorganisation of BR's freight services. The union says the reorganisation would cut jobs.

Aslef also says the move is the latest in a series aimed at preparing BR for privatisation. Announcing after a special meeting of the union's executive that the ballot would not go ahead, Mr Derrick Fullick, Aslef general secretary, said: "Just because the law ties our hands over industrial action does not change the iniquities of what is taking place." The decision against the ballot was taken after the executive said it had received updated information from BR about the closure of the Speedlink freight service and legal advice from its solicitors.

GPT workers accept scheme

Manual workers at the Coventry factory of GPT, the telecommunications group, have accepted the introduction of an innovatory pay scheme through which earnings are linked to the performances of the unit in which they work.

The system is considerably more sophisticated than standard bonus systems which measure output only. Payments at GPT Coventry depend on factors including efficiency, first time pass rates and maintenance. They will vary monthly.

Manual unions tend to oppose performance-based pay systems but Mr Joe Purdue, trade union convener, said there had been little choice but to accept the proposals in the economic climate.

He said the company had indicated a wish for a system based upon personal performance in the future. This is almost unheard of in British manual work.

TUC warns of disruption

Mr Norman Willis, TUC general secretary, accused Mr Michael Howard, employment secretary, of risking disruption in British industry by proposing new legislation to end the TUC's role in deciding which union should represent workers.

Mr Willis said Mr Howard was embarking on "a campaign of denigration, misrepresentation and destabilisation of British trade unions" through measures in a green paper to be published next month which would undermine the TUC's Bridlington rules.

The Bridlington rules allow the TUC to rule on which of its member unions should represent groups of workers in cases of dispute. The EETPU electricians' union was expelled from the TUC in 1988 for defying rulings on two of its single union deals.

TUC leaders believe the measures the green paper is likely to suggest, giving individuals the right to belong to the union of their choice provided that union has some members doing similar work, would make it impossible to continue with the Bridlington rules.

Training for young favoured

Support for compulsory structured training for young employees has been expressed by a significant proportion of companies in a survey by the British Journal of Industrial Relations.

About half of the 250 private-sector employers canvassed indicated they would favour the introduction of a system similar to that operated in Germany, where training of all school leavers entering employment is obligatory.

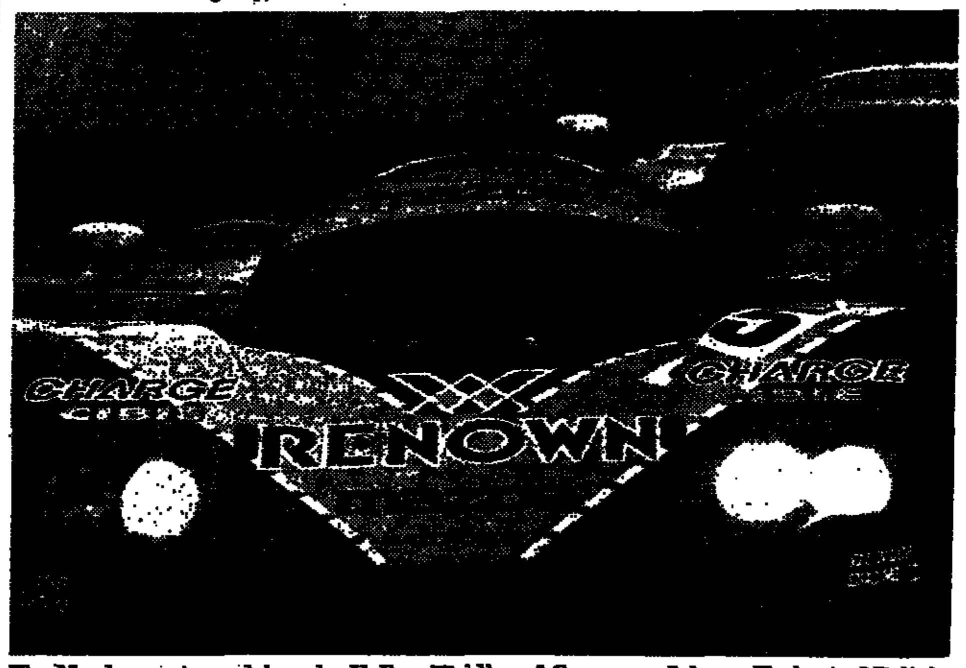
Introduction of compulsion in the training of the 16-18 age group is controversial. Such a step forms a central plank of Labour's proposals on training.

Holmes statue to be unveiled

A statue of Sherlock Holmes is to be unveiled in Edinburgh's Picardy Place today in memory of the detective's creator Sir Arthur Conan Doyle who was born nearby.

Rock 'n roll for headmaster

A headmaster is quitting school to seek fame and fortune as a rock 'n roll star. Guitar-playing Mr Norman Findlay, 44, is giving up his job to try his luck in Los Angeles. Mr Findlay, who has written songs for several years, said: "Some of my colleagues probably think I'm mad, and I can't blame them. It is a real gamble, but I just want to make my way in life as a musician, not as a teacher".



The Mazda sportscar driven by Volker Weidler of Germany, Johnny Herbert of Britain, and Bertrand Gachot of Belgium races to victory in the French 24 hour Le Mans race. It was the first victory by a Japanese car manufacturer in the 68-year history of the championship. Mercedes had appeared ready to repeat their 1989 triumph with two-and-a-half hours left. But the leading car was forced out with a coolant leak. Three Mercedes swapped the lead early in the night and one had a four-lap advantage at dawn. Unable to maintain the pace a Jaguar driven by Britons Derek Warwick, Andy Wallace and John Nielsen of Denmark was second at daybreak, until passed by the Mazda. Jaguar's also finished third and fourth. Only 12 of the 38 starters finished.

APPOINTMENTS

Changes at Philips' companies

■ From July 1 PHILIPS COMPONENTS and PHILIPS SEMICONDUCTORS will operate as separate commercial activities in the UK and Ireland. In addition to his prime responsibility as sales and marketing director of display components, Mr S.R. Longley will be responsible for managing the overall interests of the components activity. For passive components the sales and marketing director is Ms M.M. Crowther, and for magnetic products, Mr J. Grant. Mr S. Marsh is sales manager of the separate liquid crystal displays activity. Mr E.L. Hentley is appointed sales and marketing director of Philips Semiconductors, part of the newly-formed worldwide product division. Mr J.V.S. Tyndall, managing director of Philips Components, retires on June 30.

■ Mr Graham Coles has been appointed group finance director of AMBER DAY HOLDINGS. He joins from British Home Stores where he is finance and property director.

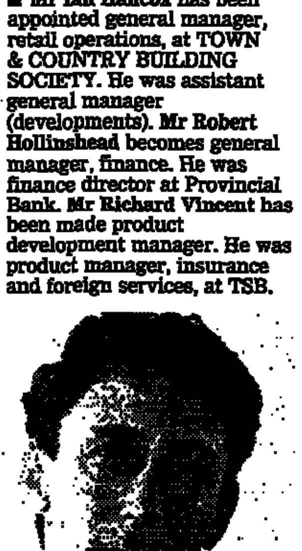
■ NORTHERN ELECTRIC has appointed Mr Richard Taylor to the new post of financial controller from July 1. He was financial controller of British Sugar, and group chief accountant with Berisford Bristar.

■ BICC CABLES, Chester, has appointed Mr Pat Duffy as manager, polymer engineering department, energy cables division. He was section head, polymer processing.

■ Mr Brian Blakemore, regional manager of BARCLAYS DEVELOPMENT CAPITAL in Birmingham, has been promoted to regional director.

■ THOMAS JOURDAN has appointed Mr Paul Elliott to the main board. He is managing director of subsidiary Suncrest Surrounds.

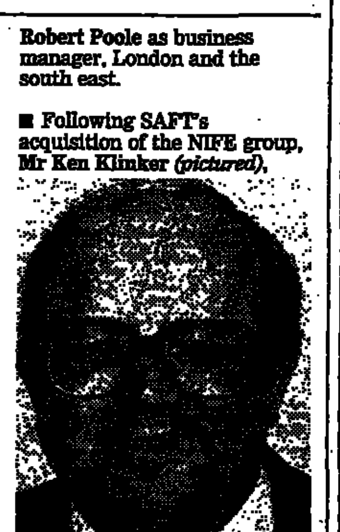
■ Mr Ian Hancox has been appointed general manager, retail operations, at TOWN & COUNTRY BUILDING SOCIETY. He was assistant general manager (developments). Mr Robert Hollinshead becomes general manager, finance. He was finance director at Provincial Bank. Mr Richard Vincent has been made product development manager. He was product manager, insurance and foreign services, at TSB.



Mr Trevor Goul-Wheeker (*pictured*) has been appointed managing director of GESTETNER. He was marketing co-ordinator.

■ SEDGWICK FINANCIAL SERVICES, benefits consulting division, has appointed Mr David Lester as business manager, Scotland and the North of England, and Mr Robert Poole as business manager, London and the south east.

■ Following SAFT's acquisition of the NIFE group, Mr Ken Klinker (*pictured*),



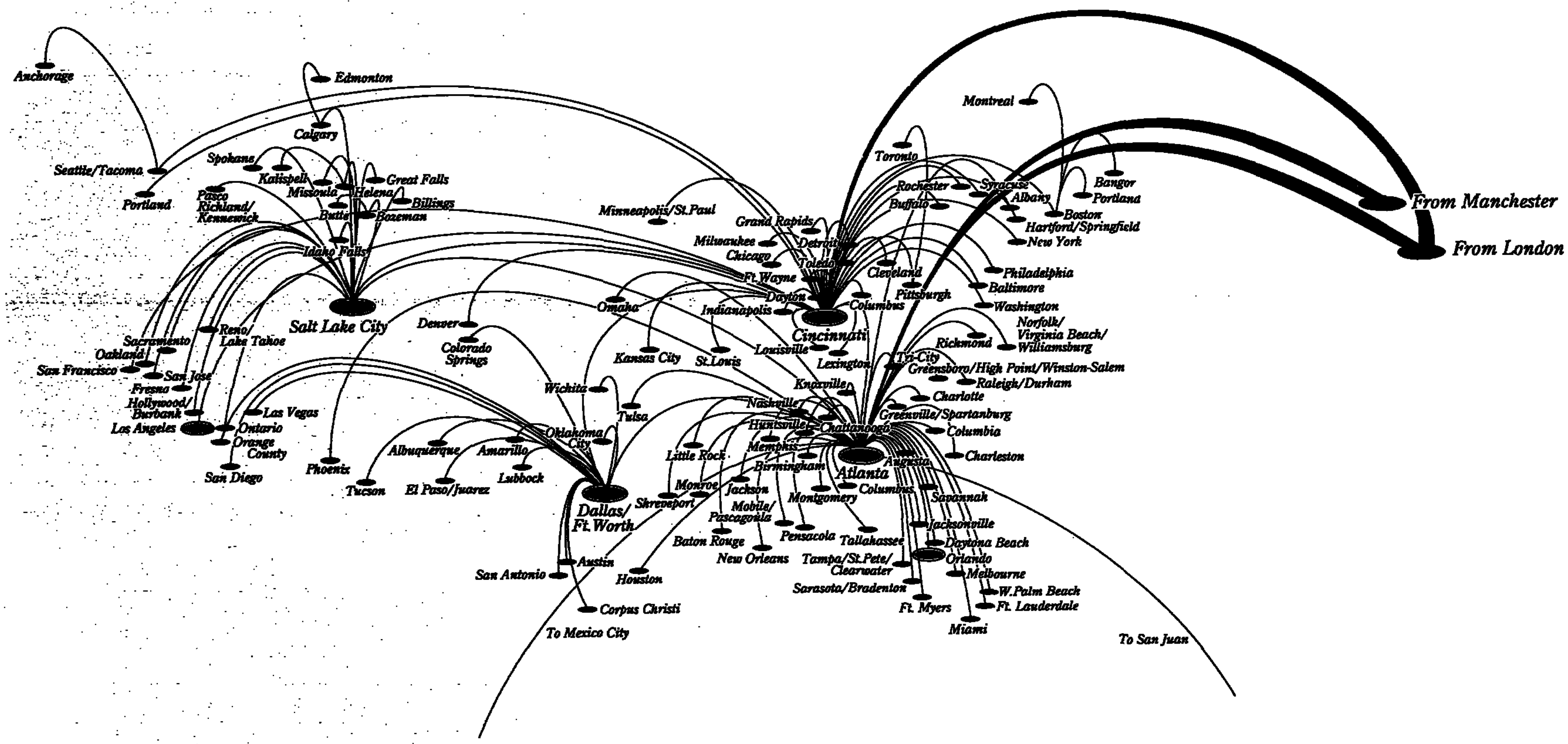
director of international operations, SAFT, and managing director of SAFT (UK) (to be called Saft Nife from July 1), has increased his responsibilities to include the NIFE commercial subsidiaries in Austria, Cyprus, Finland, Norway, Spain, Switzerland, the UK, and India. Mr Frank Greco has been promoted to the new post of international controller. He was finance director and company secretary of SAFT (UK). Both will be based at Hampton, Middlesex, at Saft Nife, and have a Paris office at SAFT's international headquarters.

■ Mr Julian Tyson-Woodcock has been appointed assistant secretary of the INSURANCE INSTITUTE OF LONDON, succeeding Mr Philip Roberts-West who becomes director of finance and administration, CHARTERED INSURANCE INSTITUTE.

■ Sir Leslie Fletcher has been appointed deputy chairman of RMC GROUP.

240 Lines That Explain Why You Should Fly Delta To The States.

(260 If You Count The Copy.)



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THE WEEK AHEAD

ECONOMICS

Busy week in wake of G7

GERMANY and the US, and the rise of the dollar against the D-Mark, should dominate the markets this week following yesterday's Group of Seven meeting of the main industrialised countries in London.

The week's data should provide important clues as to the current state of the US recession – has it hit bottom? – and the intensity of German inflation – are import prices rising? In the US, personal consumption figures on Thursday are expected to have risen, while the closely-watched leading indicators should rise for the fourth successive month.

In Germany, import price data due some time in the week should indicate whether the dollar's recent rise against the German currency threatens a tightening of monetary conditions. MMS International, the finance research company, predicts a May monthly rise of 0.4 per cent, taking the annual rate to 3.1 per cent.

In the UK, anxieties are mounting about the vulnerability of the pound, which has been weakened by evidence of a protracted recession and cracks in the Conservative party. Trade figures out today could add to downward pressure on sterling if Britain's export performance looks feeble and imports are still buoyant in spite of the weakness of domestic demand.

Other notable events and statistics, with median market forecasts from MMS International in brackets, include:-

Monday: Spain, regular Bank of Spain repo tender. Australia, Labor Party conference starts. UK, monthly trends survey, visible trade balance (down £800m), current account (down £700m), first quarter gross domestic product (down 0.6 per cent on quarter, down 2.5 per cent on year) New Zealand, May trade balance. Canada, wholesale trade for May.

Tuesday: France, regular Bérégovoy press conference. US, May durable goods orders (up 1.85 per cent), durable shipments, existing home sales, auto sales June 11-20 (6.2m), June consumer confidence. France, May trade balance (down FFr 3.7bn). Japan, leading diffusion index for April. Australia, May manufacturing production, preliminary. Canada, April foreign bond holdings.

Wednesday: Japan, Bank of Japan governor's regular press conference. US, final first quarter gross national product (down 2.6 per cent), deflator (5.2 per cent), first quarter post-tax profits (down 5.6 per cent). UK, May building society new commitments (£3.5bn). Japan, retail sales for May (4.5 per cent on year) and industrial production (up 2.9 per cent).

Thursday: Germany, Bundesbank council meeting (no rate rise expected). Australia, manufacturing input price index for April, 2nd quarter job vacancies. US, May personal income (up 0.5 per cent), consumption expenditure (up 0.8 per cent). Canada, April building permits, average weekly earnings.

Friday: Luxembourg, EC council meeting. US, May leading indicators (up 0.5 per cent), June Chicago NAPM, agriculture prices, May bank credit, industrial and commercial loans. UK, first quarter savings ratio (10.5 per cent), real personal disposable income, industrial and commercial companies financial deficit. Japan, June Tokyo consumer prices index (3.3 per cent), May unemployment. Canada, April GDP at factor cost (0.3 per cent), first quarter capacity utilisation.

During the week: France, May unemployment rate (9.5 per cent), manufactured goods consumption. Japan, May construction orders, housing starts (down 21 per cent on year), May trade figures, wholesale price index. Germany, import prices (0.4 per cent), preliminary (0.3 per cent on month) and regional cost of living.

Rachel Johnson

RESULTS DUE

THE recently privatised water companies, whose reports are flooding in this week, are proving largely recession proof, with costs contained while demand has risen. Prices have gone up by 12-14 per cent, and companies with spare cash will earn handsome interest too.

Forecasts for Southern Water, reporting tomorrow, are for pre-tax profits of £95m, up from the pro-forma £84.1m. Wessex Water, on Thursday, is expected to produce up to £62m pre-tax compared to a pro-forma £56.5m.

However, Northumbrian Water is likely to see pre-tax profits fall to about £47m from a pro-forma £54.8m, when it announces on Wednesday, due to substantial costs incurred as it built up capacity.

The regional electricity companies are likely to follow the pattern set by East Midlands Electricity, producing better results than forecast in their flotation prospectuses. London Electricity is expected to report pre-tax profits of near £130m against the £115.6m prospectus forecast.

Southern Electricity should make £138m pre-tax against prospectus forecasts of £122.7m, while North West Electricity is expected to make £80m pre-tax compared to the £63.2m forecast. National Power, one of the two electricity generators, should make £475m pre-tax against a prospectus forecast of £465m.

DIVIDEND & INTEREST PAYMENTS

UK COMPANIES

PARLIAMENTARY DIARY

CONTRACTS & TENDERS

LEGAL NOTICE

NOTICE OF CREDITORS MEETING
UPPERSTAR LIMITED IN RECEIVERSHIP

NOTICE IS HEREBY GIVEN, pursuant to Section 48 of the Insolvency Act 1986, that a MEETING of the CREDITORS of the above named company will be held at 43 Temple Row, Birmingham on 2 July 1991 at 11.00 am for the purposes of having laid before it the report prepared by the Joint Administrative Receivers in accordance with the said section and if thought fit, appointing a Committee.

Creditors whose claims are wholly secured are not entitled to attend or vote at the meeting. Creditors who are partly secured may only vote in respect of the balance of the amount due to them after deducting the value of the security, as estimated by them. A creditor in respect of a debt due on, or secured by, a bill of exchange or promissory note must treat the liability of any person who is liable on the bill antecedently to the company as a security held by him (unless that other person is subject to a bankruptcy order or in liquidation)

Creditors wishing to vote at the meeting must lodge a written statement of either their claim with us at Cork Gully, 43 Temple Row, Birmingham, B2 5JT no later than 12 noon on 1 July 1991. Forms of proxy are enclosed which, if intended to be used, must also be lodged with us by that time. Photocopies (including faxed copies) are not acceptable.

DATED this 14 day of June 1991.
Ian N Carruthers
Joint Administrative Receiver

WARD & COMPANY (BIRMINGHAM) LIMITED

Registered number: 1825824
Nature of business: Jewellery Manufacture and Wholesale.
Trade classification: Other Manufacture
Date of appointment of joint administrative receivers: 11 June 1991
Name of person appointing the joint administrative receivers: National Westminster Bank Plc
David Robert Wilton and David John Corney
Joint Administrative Receivers
(Office holder nos 5873 and 1869) of Cork Gully, 43 Temple Row, Birmingham, B2 5JT

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CONFERENCES

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CONSTRUCTION CONTRACTS

Developing Hammersmith site

Bredero Properties has handed over the site for Centre West in Hammersmith to R. O'ROURKE & SON marking the start of a £13.6m main frame contract, which is believed to be the largest frame contract awarded in London this year.

Centre West, central London's urban redevelopment project on a site which is the size of Trafalgar Square, will provide a new heart for Hammersmith.

The scheme includes a major transport interchange, shopping facilities and headquarters office buildings.

When the project is completed, Bredero's Centre West development will comprise 250,000 sq ft of offices in two buildings, a 65,000 sq ft shopping centre and a new transport interchange for London Regional Transport, comprising a completely refurbished underground station and new bus station.

Interim facilities for the underground and bus station, and for the Post Office have been completed ensuring full facilities for the public are maintained during the redevelopment. Phase one of Centre West is due for completion at the end of 1993.

London water ring main project

A new contract will speed up construction of the London water ring main, while cutting costs at the same time. Thames Water and TAYLOR WOODROW have signed a contract to totally redesign and manufacture segments for lining the ring main.

The new segments are much larger than those previously used, giving the potential to line the tunnel at up to 80 metres a day, more than twice the previous rate.

The 50 mile ring main is halfway complete and already pumping water into London's distribution system.

The £12m contract with Taylor Woodrow Civil Engineering for 250,000 segments will also lead to cost savings, said Mr Bill Alexander, Thames Water's engineering director, at the start of production in Southall.

The new operation will be producing some 4,000 segments a week, using high output methods and equipment previously employed on the Channel Tunnel.

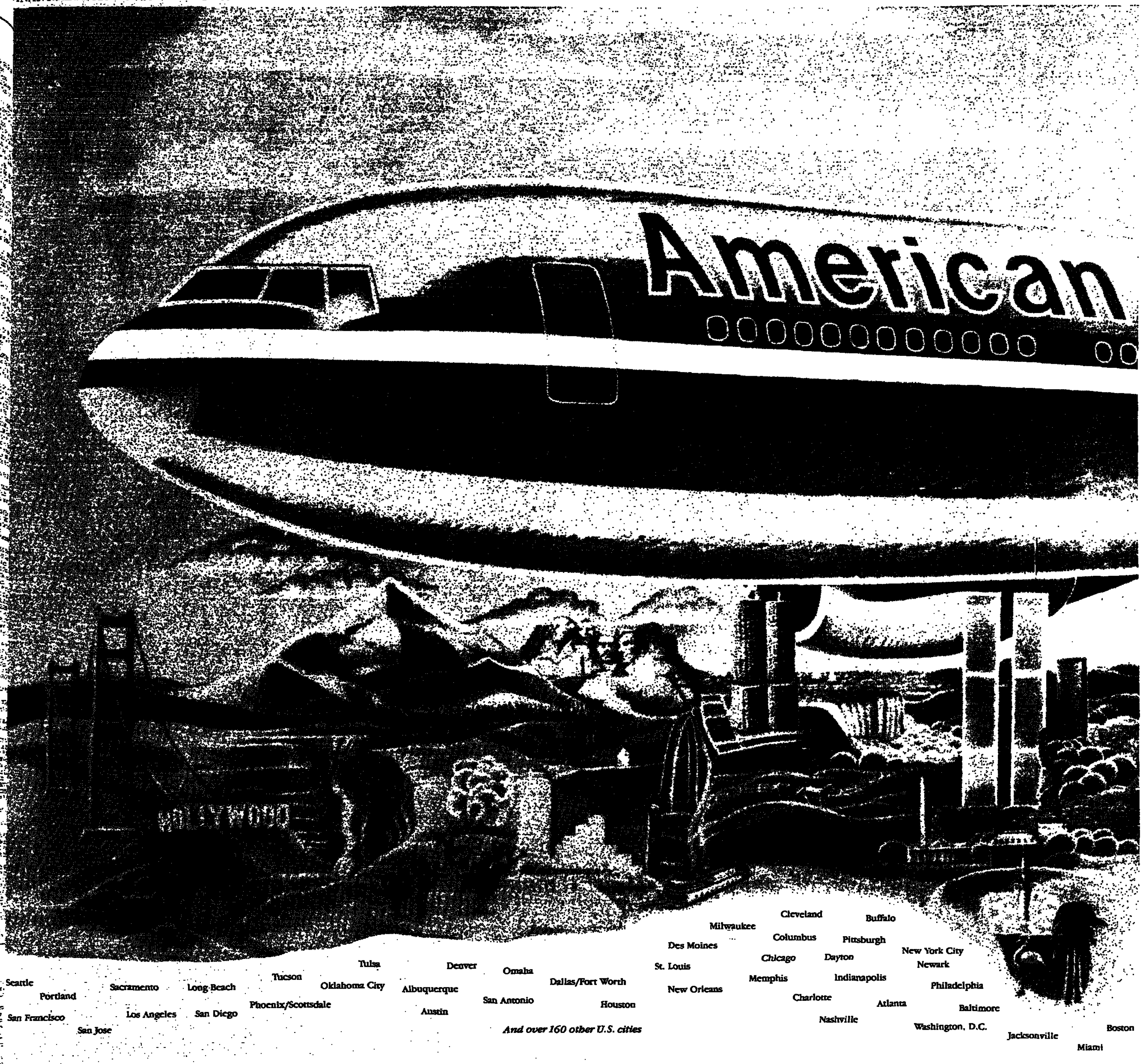
Tunnelling work on the second half of the ring main starts next month.

Improving harbour access

A £9m civil engineering package in St Helier has been awarded to R.M. DOUGLAS CONSTRUCTION by the States of Jersey. The contract covers the construction of a grade separated interchange to ease traffic congestion around the harbour.

The majority of the work will be carried out below high tide level in the new land reclamation area. The scheme includes the construction of a marine wall in the existing marina, across which Douglas will build 500 metres of single carriageway road and 750 metres of dual carriageway underpass beneath a new roundabout.

The project calls for extensive sheet piling, tidal and sea defence works and the re-routing of 800 metres of large storm water drains.



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From: Heathrow					
To:	Boston	12:00	14:25	109	2 July 1991
	Chicago	09:55	13:00	87	2 July 1991
	Chicago	13:45	16:25	47	2 July 1991
	Los Angeles	10:30	14:30	137	21 July 1991
	Miami	10:00	15:10	57	2 July 1991
	Newark, NJ	11:00	14:25	115	2 July 1991
	New York (JFK)	09:00	11:50	101	2 July 1991
	New York (JFK)	11:30	14:20	105	2 July 1991
	New York (JFK)	18:00	21:00	107	2 July 1991
From: Gatwick					
To:	Chicago	10:05	13:20	87	13 June 1991*
	Chicago	13:25	16:40	47	2 June 1991*
	Dallas/Fort Worth	10:40	14:50	51	Current
	Dallas/Fort Worth	13:00	17:25	79	Current
	Miami	10:00	15:05	57	Current*
	New York (JFK)	12:15	15:15	7	21 July 1991
From: Manchester					
To:	Chicago	10:25	13:00	55	Current
	New York (JFK)	12:00	15:00	93	2 July 1991
From: Glasgow					
To:	Chicago	13:30	16:00	53	Current

*From Heathrow as of 2 July 1991.
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MANAGEMENT

Benchmarking

How to help yourself to a competitor's best practices

Simon Holberton explains a technique for improving business performance

Jon Riches, director of personnel at Unilever personal products subsidiary Elida Gibbs, remembers the encounter well. He was talking to Roger Milliken, the president of Milliken & Co., one of America's most profitable textile manufacturers.

"If you're gonna succeed Jon," said Milliken, "you've gotta steal shamelessly."

The subject of their discussion was not advanced shoplifting but benchmarking. This is a method of improving business performance by learning from other companies how to do things better, or in the words of one recent study, "to supply management with practices that deliver customer value."*

Benchmarking is a management technique that came of age in the 1980s and many companies believe that it is a tool which will enhance their competitive position in the 1990s.

Companies have found that it is an extremely helpful tool in enabling them to find out where they are in terms of the best practice. Also, by making benchmarking a line – as distinct from staff – management responsibility it presses managers to probe the underlying business procedures and practices.

"It's a way of showing them how to achieve goals and by getting them to do the analysis, shows them that they are achievable goals," says Michael Graff, a consultant with McKinsey & Co.

Elida Gibbs is a case in point. With the help of Mohamed Zairi, Unilever lecturer in total quality management (TQM) at the University of Bradford Management Centre, it has embarked on a two to three-year benchmarking study of product development in the fast moving consumer goods sector (FMCG) with the aim of reducing the time taken to develop products.

"We've got a system for new product development which we revised two years ago," says Riches. "We're proud of it but we don't know if it's any good. We want to know how it stacks up with best practice."

The power of benchmarking is underlined in the case of Xerox, where it is credited with being one of the main factors behind the company's revival in the 1980s.

Xerox embarked on competitive benchmarking with its Japanese subsidiary Fuji Xerox in the early 1980s. One of the main findings of the analysis of Japanese competitors was that Canon could sell a photo-copier for less than Xerox in the US could manufacturer one.

Since then Xerox has moved from studying competitors to evaluating companies in industries as various as railways, insurance and electricity generation. This has enabled the company to identify "best practice" ways of improving aspects of Xerox's business, ranging from timeliness to customer satisfaction and retention, and statistical process control.

Benchmarking is credited with being one of the main factors behind Xerox's revival

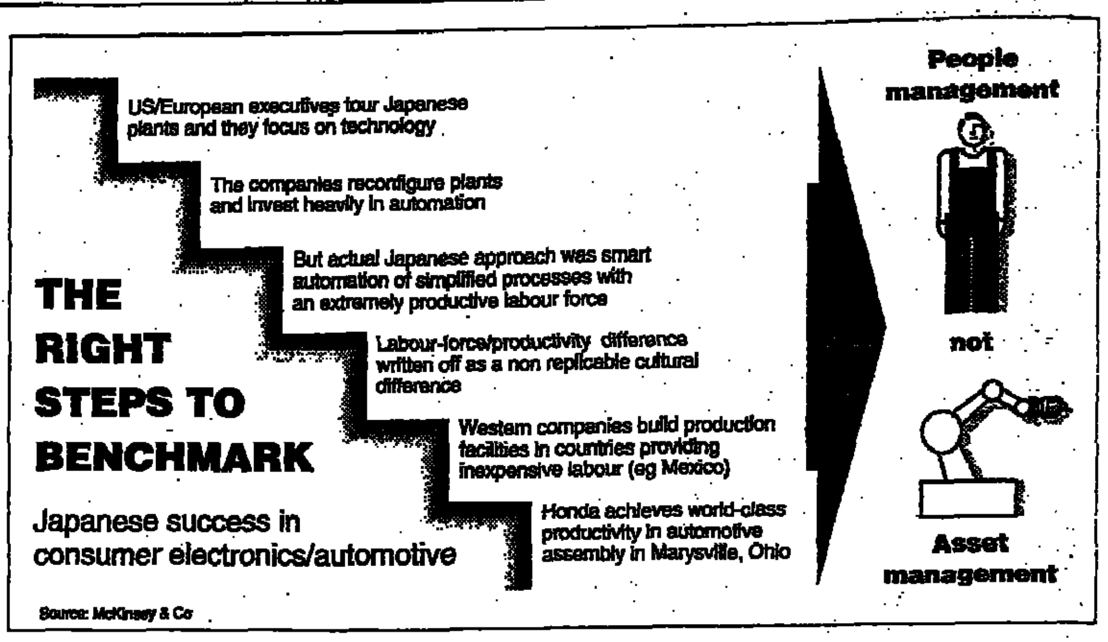
But as Graf points out, not all western companies have applied the right method and learned the right things from their benchmarking exercises, especially when Japanese companies have been studied. This is neatly encapsulated in the accompanying illustration which contrasts the western emphasis on "asset" management and Japanese emphasis on "people" management.

Westerners fail to understand that Japanese companies are a combination of "smart automation" and an "extremely productive workforce". Seeing only the technology, western companies rush to automate and locate in low labour cost countries, such as Mexico. Meanwhile, companies like Honda have established world class manufacturing facilities in areas of the US, once thought beyond redemption.

"All people tend to learn and improve through time – but is it at a rate that is competitive or not?" says Graff.

"What is great about benchmarking is that it makes companies look outward and if that highlights areas for improvement – which, in at least some areas it must – then you are faced with the question: do you want to be the best?

"That's a better way to motivate people than having a yet another 'performance improvement programme' and it has a more lasting impact on performance."



Source: McKinsey & Co

The first phase of the Elida Gibbs benchmarking project – scheduled to take 18 months – will compare and evaluate the company's new product development within Unilever. It will then compare its systems with those of other companies (though not competitors) in FMCG and, outside that sector, study world class examples of high-speed product development.

At the company, Elida Gibbs has set up a cross-functional team (known as the competitive intelligence analysis and benchmarking group) involving marketing, sales, financial and product development personnel, to monitor the project.

The second phase of the project will be implementation of what the study has learned about best practice in new product development.

So far Zairi has signed up five other companies to participate in the study. With a guarantee of confidentiality together with full access to the study's findings he hopes to gain the co-operation of six to nine other companies.

Zairi says the benefits to participating companies comes from the benchmarking methodology. This focuses on processes, not performance. "What we are looking at is the means not the end," he says. All participants will be able to learn from how others approach similar tasks.

But benchmarking may not be appropriate for every company. Academics and business consultants say that benchmarking may be best suited to companies which have embraced corporate change or renewal programmes, such as total quality management.

"Benchmarking is not for companies that want to use it to solve a problem," says Zairi. "It is for companies where the culture of never-ending improvement has been instilled."

Graff takes a slightly different view. "I think all organisations need to do benchmarking," he says. "It helps if you have an enabling programme in place, like TQM. But if there is a willingness to embark upon that sort of programme then it's a good place to start."

"Competitive benchmarking at Xerox," Robert Osterhoff, William Locander, Gregory Bounds, in Competing Globally Through Customer Value, Quorum Books, 1991.

The true test of people as assets

Christopher Lorenz attempts to put realism into the best use of human resources

Take a look at the chairman's statement in most companies' annual reports. Tucked away after all the verbiage about financial performance, takeovers and so on, there has always tended to be a bald statement along the lines of "our people are our greatest asset".

Most such declarations have been as empty and ritualistic as they are brief. Significantly, few of the chairman's other communications with the outside world during the business year have made any mention of people issues, except those relating to his top team – unless, of course, he has muddied his hands with redundancy announcements, something most chairmen leave to their underlings.

Now, however, the chairman is under pressure – competitive, shareholder and otherwise – to make his (or, occasionally, her) organisation flatter, faster and more flexible. So his annual statement is starting to make more elaborate references to the "people-centred" nature of the business.

And, in speeches and statements throughout the year, he and his boardroom colleagues are starting to make mention of such fashionable "human resources" concepts as empowerment, trust, and team-building.

Empty rhetoric again, dressed up in flashier clothes? Or something more substantial that will actually affect the future competitiveness of the organisation?

For the sake of every organisation, one very much hopes the latter. After all, the only way an organisation can survive is to learn, and change, more rapidly than the rate of change in its environment. And the only learning tool that an organisation possesses is its brain – which consists of its people, not just at the top, but at every level.

Lest this all seems over-philosophical, consider the following picture, painted by Professor Charles Handy, best-selling author and adviser to countless boardrooms, of the sort of organisation that will thrive in future.

Addressing an Association for Management Education and Development conference earlier this month on Creating 21st Century Organisations, Handy forecast that the core staff of future organisations, whether in manufacturing, services or both, would consist of highly qualified and trained professionals. They would operate, as do many professionals today, either on their own, or in project or task teams.

Since today's "professional" organisation is the model for the future, Handy advised companies to take a close look at how consultancies and other partnerships, universities and even media organisations manage themselves.

Given what motivates most people in such professional organisations, and the flatness of the structures in which many (though not all) work, they have to be trusted to take the right decisions, rather than be controlled at every stage by managers above them; they have to be "led, rather than managed".

Control is often exercised after the event, not before – in other words, through performance. Many kinds of mistake must not be punished, but written off to experience, learning and renewal.

In some professional organisations, people do not play single roles but combine several in a shifting portfolio. Nor do they work mainly in the organisation's status hierarchy, which in any case consists of only a few levels.

Instead they operate in a hierarchy which is related to the changing requirements of each task or project, in which junior people sometimes lead their seniors. Examples are a consultancy, where a senior partner works part-time on a task group run by a junior associate; or in a theatre, where a famous actor is directed by a young newcomer.

In such organisations a fundamental priority is for people to requalify themselves continually and always to keep at the front of their fields.

Supporting Handy's prescription at the conference was the association's chairman, Bob Garratt, himself a consultant. Like brains, which learn, rather than machines, which ossify, organisations needed to become more open at all levels, both within themselves and towards the outside world, he said.

Few of today's younger company chairmen would argue with that. More controversial altogether, though, was Handy and Garratt's advocacy that organisations should demonstrate their "people-centredness" by putting the value of their corporate learning, and of their people, on their balance sheets.

The fear (or incentive) of takeover is certainly, as Garratt argued, driving some companies to value, or revalue, their accumulated learning – either their brands or other forms of intellectual property. But valuing people for balance sheet purposes is extremely difficult, as Tottenham Hotspur has found; Paul Gascoigne has shown how hazardous transfer valuations can be.

More appropriate for most companies could be Handy's suggestion of emulating the example set by WPP, the advertising group, which has valued its "fixed intangible assets" at over £3m. This represents, in effect, the value of the brands of its main constituent companies, part of which includes a valuation of their people.

An ad agency's human assets are far from fixed, of course – which is one reason why most accountants dislike the idea of putting them on the balance sheet. But, as Handy told the conference, the idea of human asset values is hardly more far-fetched than was environmental accounting a decade ago.

Any chairman who has the courage and accounting dexterity to find a way of putting "his" people on the balance sheet will certainly be committed to taking them – and their continued development and learning – as seriously as any of the company's other investments. Along with real delegation and empowerment, it would certainly help his slogan of "people as assets" to take on real meaning.

ARCHITECTURE

A light shines in Docklands

Colin Amery admires the shop designed for David Mellor

There's a bit of brilliance in Bermondsey and it is worth a special detour for anyone interested in the development of London's Docklands and the progress of contemporary architecture. It is the fruit of a good marriage of minds, that of the architect Michael Hopkins and his client David Mellor, the industrial designer particularly famous for his stylish modern cutlery. There is no doubt about it, good clients do help to produce good buildings.

Michael Hopkins recently designed a a new factory for Mellor at Hathersage near Sheffield, a rural site in the Peak District, which is a modest and seemly circular stone building completely at home in its beautiful setting.David Mellor commissioned Hopkins to design his London building at Shad Thames by Butler's Wharf because he felt that rare thing, an architect's ability to build new on a site that demands a sensitivity to history and place. The *actual site of the new David Mellor* building is bounded by Shad Thames to the west, Saint Saviour's Dock to the east, and two good wharf buildings – Cinnamon and Java to *the north and south.*

It is still an evocative and powerful place. Shad Thames was renowned for its strong industrial atmosphere. Old 19th century photographs show a brick canyon of a street with precipitous high-level iron bridges slung across it. Until recently the pungent smell of spices and coffee was unprocessed; today only a controlled hint comes from the kitchens of the cramped yuppie apartments.

Saint Saviour's Dock is now decorously occupied by restored old river craft. Its warehouses are dramatic, rising Venice-like from the piled waterfront. But it was always a narrow tidal dock, not popular with the lightermen – one described it in the 1930's as "a chasm where two dozen warehouses are closely packed against one another. Up this cut creep lighters with hardly room to pass each other. Looking down Saint Saviour's Dock from its end, but the tiniest strip of sky shows between the grim walls." Many a mortgaged flat-dweller craning to check the weather would understand those sentiments.

But Michael Hopkins has brought light to the world of David Mellor and his customers. In the Mellor tradition the new building combines a variety of uses: domestic accommodation; offices; studios; and a ground floor shop. In the company's Sheffield premises living and working are also mixed up as a demonstration of the company philosophy – a belief in the idea that the whole setting of life and work demands good design.

It is rare for companies to aim for, let alone achieve, this consistency of design standards. The total concern for design comes, I am sure, from David Mellor's determination to control the whole sequence – design, development, manufacturing, marketing and finally retailing – of everything that it makes. It is a more convincing and practical *demonstration of the values of good* design than the neighbouring Design Museum, which suffers from a sort of museum self-consciousness.

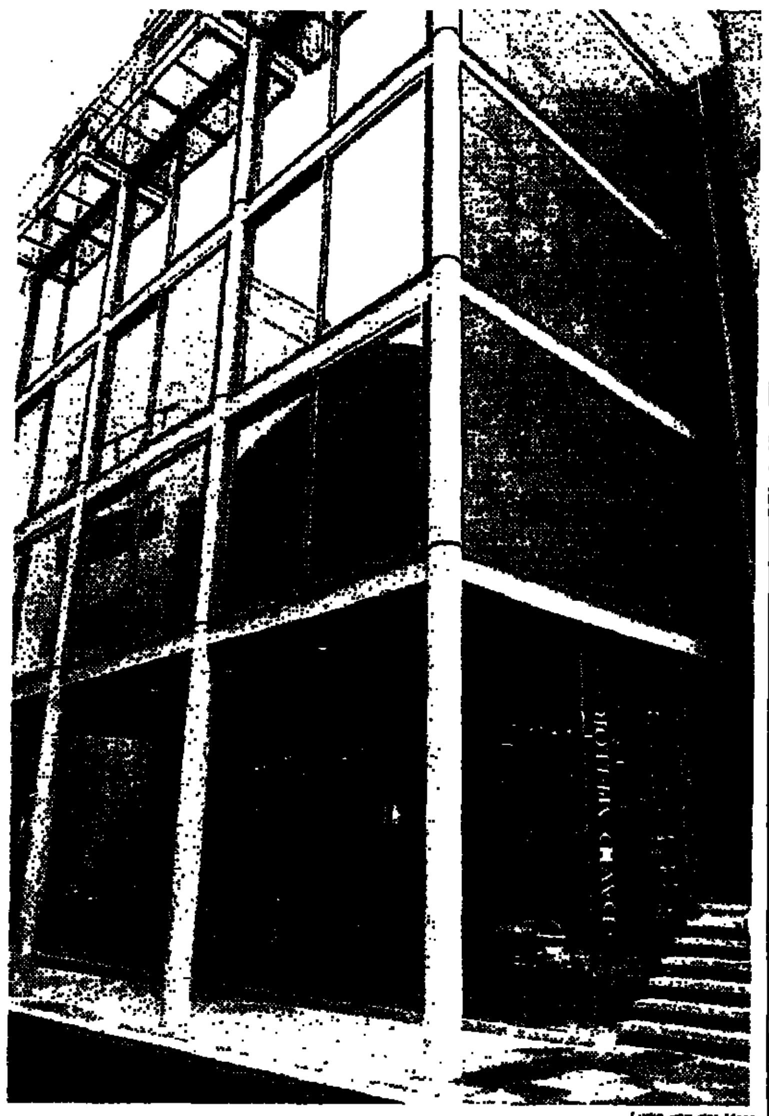
Out of this ethos it would be *reasonable to expect a good building.* In fact the result is an excellent one. Because the client is deeply involved in the process of making things, he became intimately occupied in all the details of the construction of his premises. Shared obsessions can lie beneath good marriages and they certainly do in this case. The obsessions are for absolute clarity of construction, high quality of finish and detail, and a kind of elemental determination to achieve perfection. This may sound a lot to aspire to on a site in the murky waters of London's Docklands but, in fact, it should be the minimum ambition of any architect and client.

There are five floors of building on a reinforced concrete frame. On top is a lightweight roof pavilion; lift and stair structures are free standing. The concrete columns were poured into steel formwork which gives a good fairfaced finish. The floor slabs were formed in resin-faced plywood which gives a remarkably smooth finish – apparently finished off by hand with sand paper. From both the street and dockside the elevations are mainly glazed. Solid elements are insulated lead panels: the effect is rather dark and handsome.

The most visible part of the new building is the David Mellor shop, which occupies the double height ground floor space. Most striking is the view through the whole space, which gives a wonderful sense of the riverscape of Saint Saviour's Dock almost as part of the interior. Slim columns are the only elegant interruptions to the view. The shop is filled with all good things for the good kitchen. Colour does not particularly feature in either the goods or the shop – but quality of materials is as important in the hand-woven baskets *as it is in the smooth concrete.*

Is there something period about the atmosphere of "good design"? I always feel a certain air of almost Puritan worthiness which is not *unpleasant but can be a bit* unnerving. I feel I should be putting everything away in little Shaker boxes and that I should have more solemn respect for "the crafts" and approach art only with extreme caution. There is this element of safety about the approved ambiance of this shop. But the actual building adds a new dimension to the design world – he does bring a bit of beef to the vegetarian casserole.

Number 24 Shad Thames is a very welcome achievement for Docklands – which to date has few good buildings in a sea of mediocre architectural gravy. It had some interesting neighbours, too. The dramatic "The Circle" by Piers Gough is a rather amazing mixture of ship-style vernacular on the outside and Hollywood panache in the dazzling lobbies. The actual circle at the heart of the development glints with blue-bag blue tiles and there is an agreeable sculpted horse *at its* centre. Gough shows that good architecture can be knock-about and entertaining. Hopkins shows that good architecture is also restrained and elegant.



Lydia van der Meer

A cut above the rest: the shop designed by Michael Hopkins

Ariadne in St Louis

There was no new work in the Opera Theatre of St. Louis season this year (but for next year the American premiere of Judith Weir's *Vanishing Bridegroom* is billed, and also Britten's *Dream*). The 20th century was represented by an ambitious new production of *Ariadne auf Naxos*, staged by Nicholas Muni, arising star in America's opera sky. Muni began from the questionable premise that the *Ariadne* opera leaves the prologue "unresolved" and saw it as his challenge to improve upon Strauss's and Hofmannsthal's dramaturgy and "create an organic connection between the prologue and the opera".

So we remained backstage throughout, and the prologue characters – Composer, Music Master, Major-Domo, and the rest – remained present and prominent. Elegance, charm, illusion were eschewed. The Prima Donna guyed her first aria, "Ein Schönes war" – forgot what came next, peeked at a score concealed on her rock (loud laughter), was prompted from the wings by a desperate Composer. I hated it, and felt angry. But gradually a Pirandellian magic took over. Mysterious, idealized figures of Circe and Hermes (the enchantress in Bacchus' thoughts, the death-announcing god that Ariadne expects) materialised, and others too: a raddled little crone whom Zerbinetta sees as what she may one day become, the romantic Octavian-like young Composer of the creators' imagining in addition to the plump little fusspot played by *Anna Steiger. The final*, ecstatic duet was sung by a soprano in frowsy wrapper and mob cap – hauled back from her dressing-room to the stage from which she had stomped in anger – and a stout, bald tenor who had discarded his wig. It soared.

Muni had written a new drama: about the mysterious ways in which opera works; with backstage crises and temperament clashes; management imperatives that clip the bolder flights of what artists want to do; singers' inner anguish as their assumed roles touch troubled nerve centers of their real personalities; and, through it all, the "show-must-go-on" dedication exemplified in Canio's "Vesti la giubba," in *Pagliacci*. To be sure, Hofmannsthal and Strauss wrote this drama too – but in their prologue. The difference between their *Ariadne auf Naxos* and Muni's is that for them "transcendence" takes place in the interval – after it, the vain, ridiculous Prima Donna reappears as a wholly serious and stirring Ariadne – whereas Muni continues the prologue concerns throughout the "opera proper."

Transcendence – the power of music to carry all before it – does come, but it comes late, and only after much of *Ariadne* proper has been sacrificed. Hofmannsthal haters admired this production. I didn't hate it; it was intelligent, richly wrought, challenging, stimulating, and very well executed. But, having so often responded to "straight" productions of the opera, I wondered whether Muni's revision was "necessary." What if he had confined his perceptions to the prologue and then – with his excellent cast – presented the *Ariadne* of its creators' intention?

St. Louis – the best American city – was the birthplace of Edith Mason, Helen Traubel, Richard Stilwell; and Christine Brewer, the Ariadne, with her ample, freely produced soprano continues the line. David Rampy was a ringing Bacchus. Tracy Dahl, the Zerbinetta, is a toughie soubrette who can make horrible sounds at one moment and then suddenly captivate one by her brilliance and, yes, delicacy; and she sure is a performer. Wright Moore, the Brighella, showed how a light tenor focussed on the words carries more tellingly than a voice pushed. Miss Steiger was in poor voice; the Composer's lines did not soar. Stephen Lord was an alert conductor.

Andrew Porter

Nutmeg and Ginger

ORANGE TREE

In the naughty world of musicals today, this revival of *Nutmeg and Ginger* ought to be a good deed that beams forth. Its Richmond audience greets it as such, and its cast puts it over with great verve. I alone, poor scoundrel, found it repulsively mimsy. It is very, very English - in other words harmless, arch, clever-clever, bulging with Pickwickian good cheer and thoroughly out of touch.

Nutmeg and Ginger is the work of *Julian Slade, whose several other* musicals include *Salad Days* and *Free As Air*, and is based on Beaumont's play *The Knight of the Burning Pestle*. A troupe of travelling players is interrupted *in mid-prologue by a grocer* and his wife in the audience. They bribe the players to add a role for their son Ralph, who plays the K. of the Burning P. Ralph's parents keep on derailing the plot, not only on behalf of their boy, but also wherever they have a whim. This could be terrific - a crazy musical with lunatic lapses in dramatic logic and barbed jokes about the demands made by patrons.

But *Nutmeg and Ginger* is too mild, too arch, for that. Its language is partly mock-Jacobean, with lines like "In sooth thou hast refreshed our stiffened shanks." (One character lisps and says little but "Yeth, forthooth, mother.") And partly rhyming couplets. One jilted suitor (in "Love has made a beast of me") sings "I've become a beastly fellow./ At full moon I roar and bellow." I would like to compliment all concerned in making so assured a case for *Nutmeg and Ginger* – this is its first production since its 1963 premiere production in Cheltenham – but my heart wouldn't be in it.

How this show made me long for something as ingeniously daft as *The Court Jester*.

The music is deft, neat and smug. It belongs in the Gilbert-and-Sullivan tradition, with jokey pieces of gratuitous coloratura, smartly crafted ensembles, and the chorus joining in the refrain of private airs or duets. In one of the more music-hall numbers ("Begone, my Juggy, my Puggy!"), a nervous clarinet attempts some jazz accompaniment. But that is about as far into the twentieth century as the show tries to come.

"Noel Noel Jolly Red Nose!" sings Mr Merrythought in the title song, explaining what a life of nutmeg, ginger, song and jollity have done to his (diminutive) conk. "A man is not a man without his jolly red nose!" Meanwhile we are invited to chortle at the ludicrous idea of that *vulgar*, common, ignorant (but nice) grocer's wife interfering with the show and her son Ralph pretending to be a highflown knight. If this musical has a message, it is complacency.

Alastair Macaulay

Alastair Muir

Mary Lincoln and Osmund Bulloc

Cast change in Carmen Jones at Old Vic

Gary Wilmot is to star as Joe opposite the Carmen of Sharon Benson from July 8 at the Old Vic in Simon Callow's production of the musical *Carmen Jones*.

Also, Paula Ingram is to be guest star as Carmen opposite Damon Evans's Joe for eight weeks from July 9 as Wilhelmenia Fernandez fulfils previously arranged commitments.

Gary Wilmot played the lead role in the London production of *Me and My Girl* for two years, and American Paula Ingram was in the acclaimed Trevor Nunn/Simon Rattle production of *Porgy and Bess* at Glyndebourne.

The Fishing Trip

WAREHOUSE THEATRE, CROYDON

When a biography of the director Lindsay Anderson is written, a whole chapter could concern his collaboration with Frank Grimes. Anderson has twice directed Grimes as Hamlet, and Grimes has worked with Anderson in several other productions – such as the original stagings of David Storey's *The Farm* and *Life Class* and Ben Travers's *The Bed Before Yesterday*, the films *Britannia Hospital* and *The Whales of August*. Now that Grimes has turned playwright – *The Fishing Trip is his first* to be performed – Anderson directs; and Grimes plays the central role.

Four men, alone together for a weekend. The action occurs in a log cabin out in the mid-West of America. Jules (Ian Hogg) is an Irish director who has made it in America and who, each year, directs a summer season out in the mid-West. Chuck (Paul Birchard) and Pat (Stuart Milligan) are among the American actors who always re-join his company. Each year, prior to the season, these three buddies spend a week fishing here. *This year, however*, Jules has also invited Stephen (Grimes), an Irish actor whom he first knew in Dublin and who, fresh from his first work in Hollywood, will now join the company this summer for the first time.

Even though Stephen arrives soon after the other three, *The Fishing Trip* takes a long time (an act and a bit) before it reveals what it has on its mind. Meanwhile, there are a lot of red herrings floating around. Early on, Jules assures Chuck that he'd have no need feel jealous of Steve. (I spent the next hour looking for cracks that might become closet doors.) Chuck, Steve and Pat are all married; but Chuck is so over-quick to refer to his wife and three children, Pat has just split up with his wife, and we never hear of Stephen's wife apart from Jules's reference to a shotgun wedding years ago.

But no, it's not that kind of play. *The Fishing Trip* is really just the Henry James story in reverse: ingenuous European marooned among narrow-minded, conservative, blinkered old Americans. America, to these Americans (Jules included), is white, reactionary and conformist. Artless Irish Stephen keeps making one un-American *faux pas* after another. He's pro-Negro, he's pro-American-Indian, he's pro-feminist. He's so liberal that the other ask him in alarm if he's (a) an anarchist (b) a commie. He doesn't believe that America is the yardstick of success and, most dangerous of all, he makes slighting remarks about the singer Willie Nelson.

At times the play almost becomes an all-male Tennessee Williams, with Stephen as the Orpheus who descends into this mid-West and nearly saves Pat from this beautiful Hell of tight-arsedness. *It meanders, however. It* never sustains tension for long, and its efforts at poetry (Steve describing his journeys through Navaho country) are a bore. It could work better as a TV play. Here, because we never see the lake, the visual beauty that would add dramatic irony to the play is missing. And, though this is a realistic play, Grimes gives us too little sense of detail. What kind of company is Jules's troupe?

The fact that the play draws from autobiographical experience does not raise your opinion of the playwright. And his play gives no very interesting opportunities to its four players, and none of the four quite convinces in his most crucial scene. Anderson's direction ensures that this always runs with seamless naturalism. It helps that the two native Americans are played by American-born actors. But the Irish charm that is credited to both Jules and Stephen went unnoticed and unfelt by me.

Alastair Macaulay

Midsummer Night's Dream

HIGHBURY FIELDS

It is a sign of these inclement times that a small but significant chapter of Britain's recent theatre history should have been written overseas. Most prominent on the expatriate roll are Peter Brook and Lindsay Kemp, but here is another for the record – the travelling company Footsbarn, who forsook their native Cornwall for France 12 years ago.

From their encampment in the well-groomed centre of North London's Highbury, this performing caravanserai unfolds a vision of Shakespeare that is vivid, self-indulgent and oddly innocent.

Although Footsbarn are pretty cavalier with their text, they knock it about with conspicuous affection. Their *Midsummer Night's Dream* is colourfully, though uncomfortably, set in a big top strewn with wood shavings, in which the Lysander and Demetrius first appear as huge carnivalesque fighting cocks sparring for their little white hens. The Athenian lovers drop their pennants to emerge as two ill-favoured clowns puffed up with amorous pursuit of the glum and the pert.

There is no attempt to find a unity of imagery; rather the character of the piece emerges from the variety of its references. One minute Titania is affecting the refined graces of Indian temple dancer, and the next she is an Eastern sensualist, who abandons herself to the lust of an ass in the splayed scarlet heart of a spreading lotus flower.

If this variety provides the production with its vividness it also lays it open to the charge of self-indulgence. In order to accommodate the creativity of the ensemble, the running time has been stretched and the play itself pruned. Hence, Puck appears as a capering satyr with two little horns peeping out of his hair, who does not speak but witters with excitement as he does his master's bidding.

Out goes the dumbshow that precedes the mechanicals' play, and in comes a lot of extra comic business. Bottom pares his nails with a sword and is wooed out of an artistic tantrum with unscripted flatteries whispered through a keyhole.

None of the liberties strike me as offensive, it's just there are so many of them. After sitting through two-and-a half hours without interval, one can't help wishing Piramus and Thisbe a speedy dispatch. The comic climax of Shakespeare's play is submerged by the tidal wave of Footsbarn's fantasy.

Claire Armistead

INTERNATIONAL ARTS GUIDE

TODAY'S EVENTS

BERLIN

MUSIC

Deutsche Oper 19.30 Franz Welser-Möst conducts Ponnelle production of Fidelio, with Deborah Polaski as Leonore, James King *as Florestan, Gerd Feldhoff as* Pizarro and Peter Meven as Rocco. Tomorrow's performance of Aida is booked out. Wed and Sat: La clemenza di Tito. Thurs: Figaro. Sun: *Der Freischütz (3410 249)*

Schauspielhaus 20.00 Cristobal Halffter conducts Berlin Symphony Orchestra in Halffter's Concerto for Saxophone Quartet and Orchestra and Mahler's First Symphony. Tomorrow: Beethoven programme with Berlin Radio Orchestra. Fri: Achim Zimmermann conducts Mendelssohn's oratorio St Paul. Sat: opening concert of Berlin Bach festival. Sun: St John Passion (2272 261)

THEATRE

This week's repertory at the Berliner Ensemble (2827 712) includes Mother Courage (tomorrow), Schweyk (Fri), the Good Person of Sezchuan (Sat) and Galileo (Sun). The Deutsches Theater (2871 225) has Lessing's Nathan the Wise (tonight), Bulgakov's Paris, Paris (tomorrow), Goethe's Egmont (Wed), Ibsen's *Peer Gynt (Sat) and Ionesco's* The Bald Prima Donna (Sun), plus G.B. Shaw's Village Wooing at the Kammerspiele (2871 226). The Maxim Gorki Theater (2082 748) *is showing George Tabori's Mein* Kampf (tomorrow and Sun), Shakespeare's As You Like It (Thurs) and Chekhov's Three Sisters (Sat). In the western part *of the city the Schiller Theater has* Goethe's Iphigenie auf Tauris (tonight), Peter Turrini's Tod und Teufel (tomorrow and Fri) and a new production of Lessing's Minna *von Barnhelm directed by* Katharina Thalbach (Wed, Sat and Sun). Anouilh's The Orchestra can also be seen in the Werkstatt on Wed, Sat and Sun (3195 236)

BUDAPEST

Museum of Music History 20.00 Recital of cimbalom duos by Ilona *Szeverenyi and Ildiko Vekony. Fri:* trumpet and organ recital by Zsolt Nagy Major and Istvan Ruppert in the Matthias Church. Sun: Andras Ligeti conducts Budapest Symphony Orchestra and Hungarian Radio Chorus in the Pest Concert Hall. Every Tues, Thurs and Sat during the summer months, there is an operetta concert in the Pest Concert Hall. Pre-booking at Philharmonic booking office, Vorosmarty ter 1

COLOGNE

Opernhaus 19.30 Jochen Ulrich's Tanz Forum production of Romeo and Juliet, music by Prokofiev. *Tomorrow: L'elisir d'amore. Wed:* Fidelio, with Nadine Secunde as Leonore. Thurs till July 6: Broadway production of West Side Story (221 8400). Tomorrow in *Philharmonie: James Conlon* conducts Dvorak's Requiem, with soloists Gabriela Beňačková, Hanns Schwarz, Dennis O'Neill and Hans Sotin. Fri: Giulini *conducts Beethoven (2801)*

Schauspielhaus 19.30 Piaf, play by Pam Gems. Runs till Sat, except Thurs (221 8400)

GENEVA

Grand Théâtre 20.00 Gabriele Ferro conducts Reto Nickler's production of Guillaume Tell, with Jose van Dam in title role, Chris Merritt as Arnold and Jane Eaglen as Mathilde. Also Fri and next Mon (212311)

LONDON

MUSIC AND DANCE

Coliseum 19.30 English National Ballet's summer season opens *with John Cranko's The Taming* of the Shrew, designed by Elisabeth Dalton, with music by Domenico Scarlatti adapted by Kurt-Heinz Scholze. Repeated tomorrow, Wed and Thurs. Later in the week there is a programme of one-act ballets. The ENB season at the Coliseum ends on July 6, and resumes at the Royal Festival Hall on July 29 (071 836 3161)

Covent Garden 19.00 Jeffrey Tate conducts John Schlesinger's production of Les Contes d'Hoffmann, with Alfredo Kraus in title role, James Morris as the four villains and Sumi Jo, Anne Howells and Leontina Vaduva in the main female roles, also Thurs *and Sat. Tomorrow: Royal Ballet* triple bill. Wed: Attila. Fri: La Cenerentola (071 240 1066)

Royal Festival Hall 19.30 An evening with Milton Nascimento, *Brazilian singer-songwriter. Wed:* Alfred Brendel plays Mozart. Thurs: Previn conducts Britten's War Requiem (071 928 8800)

THEATRE

National Theatre: *the Olivier has* John Webster's Renaissance tragedy The White Devil (1612) tonight and tomorrow, in a production directed and designed *by Philip Prowse. This is followed* for the rest of the week by Steven Pimlott's production of Molière's The Miser (1668), in a new translation by Jeremy Sams. The Lyttleton devotes the whole week to Eduardo de Filippo's Napoli Milionaria (1945), directed by Richard Eyre with a cast including Ian McKellan, Peter Jeffrey and *Clare Higgins (previews tonight*, tomorrow and Wed, press night on Thurs). The play is a story of ambition and the will to survive in postwar Naples. At the *Cottesloe, Alan Ayckbourn's* Invisible Friends has its last performances of the season (tonight, tomorrow and Wed), and is followed by Keith Dewhurst's new play *Black Snow, inspired* by Bulgakov's comic novel about the Moscow theatre in the 1920s. For information about all West End shows, phone Theatreline from anywhere in the UK: Plays 0836 430959 Musicals 0836 430960 Comedies 0836 430961 Thrillers 0836 430962

MILAN

Teatro alla Scala 20.00 Riccardo Muti conducts Orchestra of La *Scala in Busoni*'s Turandot suite, Scriabin's Poeme d'Extase and Brahms' First Piano Concerto, with Maurizio Pollini. Tomorrow, Thurs and Sat: Muti conducts Jerome *Savary's new production of Attila.* Wed and Fri: Mirella Freni sings in La boheme (7200 3744)

NEW YORK

Broadway: The Will Rogers Follies (Palace Theater), which won six Tony Awards including best musical, is an old-fashioned *all-American extravaganza directed* with customary flair by Tommy Tune, with a cast led by Keith Carradine. Grand Hotel: The Musical (Martin Beck Theater) is another Tommy Tune success, set in an international Berlin hotel in the late 1930s. Gypsy (Marquis Theater) has music by Jule Styne and lyrics by Stephen Sondheim, *plus the original choreography* by Jerome Robbins. The Phantom of the Opera (Majestic Theater) is the long-running Andrew Lloyd Webber/Harold Prince musical set *in the 1860s and telling of a* mysterious creature who lurks beneath the Paris Opéra stage, exercising a reign of terror over performers and audience. The *Secret Garden (St James Theater)* is a musical based on the Frances Hodgson Burnett novel about an orphan who goes to live with her uncle and discovers a magic garden: Daisy Eagan won one of this season's Tony Awards for her performance. Lost in Yonkers (Richard Rogers Theater) is the award-winning Neil Simon play. Ticketron answers inquiries and sells tickets (246 0102)

PARIS

Théâtre des Champs-Elysées 20.30 Philippe Herreweghe conducts La Chapelle Royale and Collegium Vocale in Haydn's The Creation, with soloists Hillevi Martinpelto, Peter Lika and Markus Schafer. Tomorrow: Richard Armstrong conducts final performance of Peter Stein's WNO production of Falstaff *(4720 3637). Thurs at Opéra* Bastille: first night of Robert Wilson's production of Die Zauberflöte (4001 1616). Thurs at Châtelet: concert performance of *Meyerbeer's opera L'Africaine* (4028 2800)

VIENNA

MUSIC

Staatsoper 18.30 Silvio Varviso conducts Der Rosenkavalier, with Anna Tomowa-Sintow as the Marschallin, Susanne Mentzer as *Octavian and Kurt Rydl as Ochs.* Tomorrow and Fri: Erich Leinsdorf conducts Fidelio. Wed: Die Frau ohne Schatten. Thurs: Tosca with Hildegard Behrens and Placido *Domingo. Sun: Domingo sings* Otello (51444 2960)

Volksoper 19.00 Donald Runnicles conducts German-language performance of Cosi fan tutte, with *a cast including Gabriele Fontana* and Hedwig Fassbender. Tomorrow: Der Freischütz. Wed: Der Graf von Luxemburg (51444 3318)

THEATRE

This week's repertory at the Akademietheater and Burgtheater includes Pirandello's Henry IV, Feydeau's Hotel Ultimus and a new production on Thurs of Kleist's Penthesilea (51444 2218)

Telephone sales of tickets for the Staatsoper, Volksoper and Burgtheater are available worldwide for holders of credit cards by ringing Vienna 5131 513

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0500-0530 Moneyline
0800-0830 Moneyline
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2000-2030 World Business Today - a joint FT/CNN production with a review of the day's major business stories
2300-2330 World Business Today
0100-0130 Moneyline

Superchannel

0700-0830 Financial Times Business Report

A five minute business briefing broadcast three times between 0700 and 0800

2220 - *2250* (Wed) Financial Times Business Weekly - the latest round-up of business news with James Bellini and Debbie Middleton.

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Sky News

1200 International Business Report
2130 (Thurs) Financial Times Business Weekly

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0800-0830 Moneyline
0900-0930 World Business Today - a joint FT/CNN production
1540-1610 Moneyweek
1900-1930 World Business This Week
2110-2140 Your Money

SUNDAY

Superchannel

1800-1830 FT Business Weekly
1930-2000 FT Business Weekly
2330-0030 FT Business Weekly

Sky News

1030-1100 FT Business Weekly

CNN

0710-0740 Moneyweek
1540-1610 Your Money
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Return to Berlin

THE DECISION to make Berlin the capital of the newly united Germany will have profound long-term effects on the political and economic geography of Europe. For nearly half a century after the end of the second world war, the continent was artificially divided. Communications went north-south; a large part of eastern and central Europe was effectively cut off from dynamic economic development.

The reasons for that were almost entirely political. Soviet-imposed communism in eastern Europe did not work. Western Europe under capitalism continued economically to grow. But the geographical dividing line was unnatural. Once President Gorbachev abandoned military domination of eastern Europe, the Berlin Wall came down and Germany was united, new frontiers opened up. The choice of Berlin as the capital is another step in that direction.

It will take several years for the physical move from Bonn to be completed. Yet the realisation of the potential effects on investment and economic development should be immediate. This is not just a move of a few government departments from one part of Germany to another. Tied to the re-opening of the eastern part of the continent, it is a fundamental shift.

Geographical facts

Some elementary facts of geography should help to explain why. Berlin is some 350 miles east of Bonn. Whereas Bonn is quite close to Paris and Brussels, the closest capital cities to Berlin are Prague and Warsaw. Moreover, in this part of central Europe there is a pool of surplus, or under-utilised labour waiting to be taken up. There are communications to be developed: the railway link from Cologne-Bonn to Berlin, for example. And Berlin itself, seemingly overcrowded at the moment, has room to grow.

During the cold war, West Berlin was one of the most subsidised cities in Europe. It suffered from the lack of a hinterland. Rail, road and air communications were all difficult; it was not even easy to go for a Sunday drive in the country. Thus people had to be subsidised to stay there. East Berliners did not even have the compensations of political freedom and a high standard of living. As a state on its own, East Germany never made it and failed to win the support of its own citizens. With the ending of artificial barriers, all that should change. Berlin should now begin to take off as a great European metropolis.

There will be gainers as well as losers. The principal beneficiaries will be the people of Berlin and of eastern and central Europe who have seen a vote of confidence in their future. A united Germany has a vested interest in making a success of the new venture, just as the federal republic made a success out of the ruins of the second world war. The challenge is great, especially given the financial requirements in the short to medium term, but it would be a mistake to assume that the country will not be up to it.

Bonn's loss

The losers include the people of Bonn, some of whom had invested a great deal in the expectation that the provisional capital would become permanent. Even more business-oriented neighbouring cities, like Cologne and Düsseldorf, must now be wondering about their long-term prospects. Frankfurt, too, may have to look to its laurels as a major financial centre. Indeed there is a sizeable part of the continent that extends into France, Belgium and the Netherlands that must be worried about the consequences of the eastwards shift.

Britain will not be entirely immune. The UK already suffers somewhat from being on the geographical periphery of the European Community, although it has had its share of inward investment. The move to the centre of Europe may well be followed by a switch of investment intentions towards the new frontiers, not only by the Europeans but also by the Japanese and Americans. The message, once again, is that the British must try harder to compete internationally. None of that, however, should mitigate the pleasure of seeing Europe peacefully opening up in a way that once seemed almost inconceivable.

A shaky form of protection

THE FUTURE of Britain's creaking investor protection system may depend on the number of skeletons hidden in the closet since before the Financial Services Act came into force. After Friday's High Court judgment on the investors' compensation scheme, the appearance of a couple more Levitts or Dunsdales could be the final straw for the independent financial adviser.

The High Court ruled in a test case brought by the Securities and Investments Board over liability for losses on investments made before the investors' compensation scheme took effect on August 28 1988. The SIB believed that the scheme was liable for such losses and supported action by a representative investor against the scheme to obtain a definitive ruling.

The action joined the investors' compensation scheme with the Financial Intermediaries, Managers and Brokers Regulatory Association – Fimbra – which regulates small independent financial advisers. Fimbra has to pay the first £19m a year of claims to the scheme in respect of losses arising from member firms. To be made liable for losses incurred before the scheme was set up seemed to hard-pressed Fimbra members to be not just unfair: they saw it as an attempt by the government to avoid liability for a period when the Department of Trade and Industry was responsible for regulation.

Mr Justice Morritt applied the wisdom of Solomon by slicing the liability into two parts. The scheme – and Fimbra – is liable only for losses on investments made on or after December 18 1986, the date on which the concept of "investment business" first appeared in a statute. If investors wish to be compensated for losses before that date, they will have to pursue the government, as the Barlow Clowes investors did so successfully.

Laibility limited

For Fimbra members, the judgment at least limits the extent of their liability to investments made in the period since December 18 1986. But Fimbra is already not in the best of financial health: leaked correspondence earlier this year suggested that the organisation was facing insolvency. Further crashes on the scale of Levitt and Dunsdale could tip the balance – especially now that losses on investments since December 1986 must be covered.

Twice in the past, Fimbra has been bailed out by the large life insurance companies. There are reports that a third such exercise is planned, with Fimbra covering the first £5m of compensation and the remainder coming from insurance companies in proportion to the commission they pay to Fimbra members. This would be a sensible stop-gap which recognised the importance to those companies of the independent intermediaries who sell their policies.

Stop-gap measure

But it is only a stop-gap measure. The cost of self-regulation has driven many independent intermediaries into becoming appointed representatives of a single insurance company. It may be that the concept of independent financial adviser who combs the market disinterestedly on behalf of the client is not sustainable in a highly regulated environment. The SIB is currently looking at authorising a new type of intermediary who would sell the products of a limited range of companies – this would offer a manageable alternative for the adviser who wished to avoid becoming a salesman.

Whatever the outcome of the SIB's thinking, a plurality of retail outlets for financial services is worth defending. It would be a sad day if the only people selling investment products in the UK were salesmen peddling the products of one firm only.

Even if the financial pressures caused by Friday's judgment can be eased, a more stable structure is needed which distributes the costs of self-regulation more equitably. Perhaps it is time to go back to the original idea of a single supervisory board for those marketing investment products. Meanwhile, Friday's ruling will seem desperately unfair to those who happened to put their savings into unsound hands before what will seem to them to be an arbitrary cut-off date.

Philip Stephens questions whether the qualities that served John Major on his rise are those he needs as prime minister

Slightly frayed around the edges

In the frantic moments at Westminster after Mr John Major was elected Conservative leader last November, a colleague offered an instant judgment on his party's choice. The new prime minister, he said, was "a symbol of our exhaustion".

It was not the caustically malicious remark it might now seem. The minister who offered it was, and still is, a firm admirer. He was commenting on the legacy of Mrs Margaret Thatcher as much as on the promise of her successor.

It was, though, a phrase that came back to mind last week as the prime minister found himself drowned out in the din created by his two predecessors as they crossed swords over Europe. A government struggling to bind the self-inflicted wounds of economic recession and internal divisions over Europe offered few signs that it has yet found the energy and sense of purpose to restore its fortunes.

Cabinet ministers told anyone who asked: "It will all come right once the economy starts picking up." But it was hard to escape the suspicion that reassurance was being offered as much in hope as expectation.

Mr Major's oblique rather than direct repudiation of Mrs Thatcher's threatening asides, and Mr Edward Heath's vitriolic rejoinder, left an awkward feeling that he has not yet made the transition from party leader to prime minister.

As he faces what promises to be one of the most challenging weeks of his brief tenure in Downing Street, it is a suspicion that the prime minister needs to dispel.

He must demonstrate to his party at Westminster and to his partners at the European Community summit in Luxembourg at the end of this week that his carefully-crafted moderation can survive the onslaughts of Mrs Thatcher and yet keep Britain in the mainstream of European integration.

Mr Major must also live up to the promise of his aides that a keynote speech on Thursday will demonstrate that his personal brand of Conservatism is more than a shaky bridge over which his party can march from the past to the present. "Majorism", an incautious description coined and then dropped in Downing Street in the brief space of a weekend, has yet to find resonance for what it is, rather than for what it is not.

Back in November, his colleague's instant judgment on the party's preference for Mr Major made an obvious but important point. After the frenzy of self-destruction in the closing stages of Mrs Thatcher's reign, Tory MPs wanted an end to the permanent revolution and authoritarian leadership which had brought them the poll tax and a disintegrating cabinet. In the words of Mr Douglas Hurd, then a candidate for the succession, they wanted a leader who would "listen rather than lecture".

Mr Major was a youthful face with a fresh appeal; but a face with sufficient superficial resemblance to his predecessor to reassure colleagues that they would not have to repudiate all that had gone before. He was a man who had built his political fortunes on an instinctive preference for consensus over confrontation, yet he was nonetheless Mrs Thatcher's anointed successor.

The voters, it seemed, were impressed. In the weeks which followed his move into Downing Street, Mr Major's popularity in the opinion polls jumped to levels never achieved by Mrs Thatcher during more than a decade.

His application of the soothing balm of social conscience to his free-market inheritance, and his coolly skilful handling of the Gulf war, saw the Conservatives wipe out a 15-point Labour advantage in the opinion polls.

Seven months on, a fresh, still-popular, face is no longer enough, even if the lead that Labour has re-established in the opinion polls looks daunting rather than devastating.

The chattering classes have now begun to ask awkward questions.

Yes, the most frequently heard line runs, we know that he is an intelligent, clear-thinking politician. Yes, we like the fact that he has restored cabinet government. But has he come to the job too soon? Does he have that extra dimension that distinguishes the primus from the pares?

The Opposition, of course, is rather more blunt. After years of watching Mrs Thatcher send Mr Neil Kinnock reeling from the Commons chamber with his shirt soaked in blood, Labour's exultant cry is that Mr Major is weak, a ditherer, a man who prefers expediency to policies.

As in all swings of the pendulum of opinion at Westminster, there is as much fashion and prejudice as substance in the more considered assessments. Some of those who decried Mrs Thatcher's authoritarian approach appear now to be lamenting Mr Major's reluctance to emulate her.

The prism through which Mr Major is observed is heavily distorted by short memories of the iron grip with which Mrs Thatcher eventually ruled. A Tory MP who served in her first cabinet in 1979 remembers her then as equally unsure of herself, equally unaware of the power which an unwritten constitution bestows on the prime minister: "She floundered for two years."

Criticism of his leadership qualities may seem unfair to Mr Major but the pressure on him to provide a firmer lead in the country as well as to bind his party's wounds is no less real for that. Assessments cast casually in the hot-house atmosphere of Westminster have a nasty habit of percolating through to a wider public consciousness. Labels, once stuck on, are difficult to detach. As one backbench Tory MP, a friend not an enemy, put it last week: "It's not good enough if the feeling in the pubs is that he is a nice, honest chap but a bit lost as prime minister."

Such perceptions cause intense irritation in Downing St, which reels off a catalogue of foreign and domestic

A fresh, still-popular, face is no longer enough, even if Labour's lead in the opinion polls looks daunting, not devastating

policy decisions to demonstrate that Mr Major's has not been a government of inaction.

Even if the Gulf war, and the subsequent lead he gave in the Kurdish relief effort are discounted, the prime minister can claim to have made a lengthy list of decisions.

He managed to sink Mrs Thatcher's poll tax flagship without splintering his own party. He has removed many of the smaller, but still significant, running sores. The uprating of child benefit has been restored; haemophiliacs turned into victims of the Aids virus through infected NHS blood transfusions have been given the settlement they should have received a year ago; partial sense has been made of the system under which the poorest receive extra benefits during extremely cold weather.

Mr Major's diplomacy in Europe aimed at the outset to reverse what most Tories saw as an unforgiveable miscalculation by his predecessor – her opposition to German unification. The prime minister has mended fences.

Chancellor Helmut Kohl is now a firm ally who has helped to brake, if not halt, the headlong rush towards economic and monetary union. As a senior Whitehall official put it: "It is amazing what you can do if you are allowed occasionally to say 'yes'."

Despite the noise generated by Mrs Thatcher and Mr Heath, Mr Major's positive pragmatism has the broad backing of his party. His predecessor can from time to time tap a real apprehension among Tory MPs about the pressures for integration and a reflex prejudice against "Frère Jacques" (as Mr Jacques Delor, president of the European Commission is less than affectionately dubbed).

But the vast majority are neither Euro-philes nor -phobes. Most want to avoid the mistakes of the 1960s and 1970s, in standing aloof from European integration, but they also want to resist a Brussels-driven stampede to federalism.

It is a stance that matches Mr Major's own instincts: less Atlanticist than his immediate predecessor and less European than that of his predecessor-but-one; and one that might yet provide enough latitude for a deal to be struck with Britain's partners at the end of the year.

There is substance also in his domestic policies, even if it has been hard to trace the new directions against the thickly-drawn blueprints of Thatcherism.

Mr Major must take his share of the blame for the ghastly mistakes which brought a return first to runaway inflation and now deep recession. He can claim, however, that he has been consistent in his response. His commitment to sterling's place in the Exchange Rate Mechanism and a reluctance to bring down interest rates more quickly testify to the conviction behind his comment: "First and foremost, I loathe inflation."

His broader philosophy – cast first in a vision of a "classless society" and more recently enshrined in his promise of a citizens' charter – is not as obscure as it sometimes seems.

Mr Major takes his time to make decisions and demands all the advice on offer. But to a senior official who sees him regularly and has no reason to be anything but impartial, he is "the clearest-thinking politician I have met".

His starting point is Thatcherite. People, as he once put it, "spend their own money, in their own way, better than others can spend it for them". The government should withdraw from those areas where the private sector can do a better job. Decision-making and choices should be devolved, public spending and taxes kept low.

The state nonetheless has a crucial role in levelling the playing field of opportunity. Well-funded state education and health services and a welfare system which offers a hand up as well as a cushion are the supports in a framework which gives everyone an equal chance to be unequal.

He is a politician who, when chief secretary, tempered his admiration for a senior colleague with the acerbic comment: "He simply has no idea what it is like to run out of money before the end of the week."

But Mr Major's agenda has lacked the rhetorical clarity which might have put the recent torrent of policy announcements on the social charter, education and transport into a coherent whole. The sensible political decisions of a humane politician have often looked more like tactical responses to unpopularity rather than elements in a wider strategy. He has seemed too eager to make popular decisions and too hurt when the response has not been favourable.

More seriously, an unwillingness to confront his Tory critics has begun to look like the nervous balancing act of a prime minister who has yet to realise the power of his office. His reluctance to confront Mrs Thatcher over Europe risks becoming a sign of weakness by allowing the extremists on both sides to keep command of the European debate.

His dislike of confrontation has served him well in the past. Mr Major owes his meteoric ascent to an instinct which has told him it is always better to make friends rather than enemies. The sheer speed of his rise through various ministerial offices left him little time to articulate a distinctive political approach. A senior colleague who watched that ascent from close range comments: "He has always played it safe and it has always worked."

Now, though, the politician who remarked last year that "I am not ideologically pure in any way" may have to start to take risks. Playing it safe has not allowed him to imprint his own identity on the party.

A prime minister needs to be confident in conflict as well as in conciliation. Mr Major could argue justly that any new leader needs time, never mind one grappling with an economic recession at just the wrong point in the electoral cycle. But with 12 months at most before the election, time is a commodity of which he has precious little.

OBSERVER

All in the mind

■ The buzz in the UK motor trade is that one of the big three car-makers is about to slash list prices by 10 per cent. If so, it will not only galvanise headline writers but confound Monopolies and Mergers Commission beaks investigating high charges for new cars.

The big three all understandably deny authorship, because everyone wants to keep the marketing powder dry for the new J-plate sales push in August.

Who's planning the move, however, is less intriguing than what's being planned. It would no doubt look good on paper for an industry that has been taking a media pounding over prices. But the resulting losses to manufacturers and sellers, and even more so the gains to buyers, would look to be largely if not entirely in the mind.

Of the 10 percentage-point cut, about three quarters would come from reducing the dealers' official margin from 17.5 to 10 per cent.

That sounds like bad news for them – until one realises that the market has been cut-throat for so long that most car dealers cannot remember the last time they enjoyed even 7.5 per cent on a sale.

The rest of the "cut" would be covered, again purely notionally, by the reduction in taxes payable on the lower official price.

The grapevine has it that the said little gem will be sprung on an eternally grateful public on July 2 – which would suggest that the genius behind it isn't Rover. It has already announced a 2.5 per cent price rise for July 1.

Talked out

■ Puzzled, rejected job-hunters might find help in the following thoughts jotted down by headhunter John Courtis while interviewing a woman for a general manager's post:

"I think she's an alien. She looks human, but I can't understand what she's talking about. I thought she was applying for this GM's job. She must know there's more to it than marketing. Whatever happened to the rest of the business? I've tried to lead her further afield, but we keep coming back to marketing. Perhaps it's me....

"Looks as though it's raining again. I can still hear her talking to me but it's getting harder and harder to concentrate on what she's saying. Suddenly, it seems to have been a long day.

"I wonder if she would understand if I told her that, when you get to the bottom of the hole, you're supposed to stop digging?

Probably not.

Way out

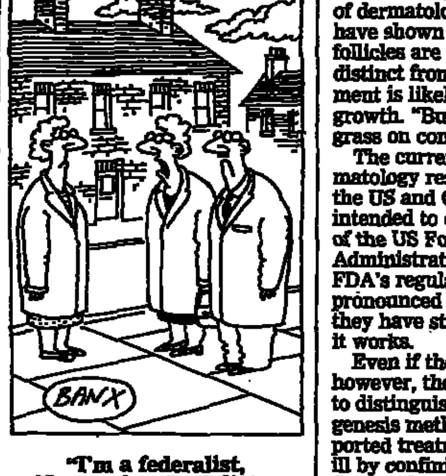
■ "Will it happen again?", Glyndebourne devotees are asking themselves with the approach of July 13 and the opening of American director Peter Sellars's version of Magic Flute.

His last year's production provoked booing, and although the libretto has been freshly translated into English, the setting will again be the same: a Los Angeles highway peopled with beach bums, wierdos and such.

"There was plenty of applause, but it clearly upset a good part of the audience," Glyndebourne admits.

Still, opera-goers who object to such cavalier treatment of Mozart's masterpiece can console themselves with the thought that things could be worse. They might be at the Rosa Luxemburg Oper in Roerhüttenberg, sitting through Wagner's Parsifal staged by eastern German producer Jack Skolsky.

Discussing it in next month's Opera Now, Oxford don Norman Stone says Skolsky interprets the work as a homily on "the manipulation of religion by fundamentalists, the plight of gays in the age of Aids, the continuing oppression of women by the profit motive, and the deteriorating condition of the Third World."



"I'm a federalist, Norman's a feudalist."

Help on top

■ Readers who've been driven hairless may find hope in the 300 men as well as 300 women spread around North America to be found periodically sitting under what look like hairdressers' driers. The sitters, all balding, are taking part in clinical trials of a device designed to restore their thatch.

The deviser is Current Technologies, a Vancouver company specialising in "electrotherapeutics". It was set up in 1987 when the wife-and-husband team of Anne and Robert Kramer bought rights to a process which came as a side-effect from electrical bone-healing experiments.

Balding patients sit under the high-tech skullcaps while their pates are exposed painlessly to a pulsating electric field.

According to Stuart Maddin, who has joined the company after retiring as a professor of dermatology, previous trials have shown that provided hair follicles are only dormant as distinct from dead, the treatment is likely to rekindle growth. "But you can't grow grass on concrete," he adds.

The current trials in 15 dermatology research centres in the US and Canada are intended to obtain the blessing of the US Food and Drug Administration. Although the FDA's regulators have already pronounced the process safe, they have still to be convinced it works.

Even if they're satisfied, however, the company intends to distinguish its electro-trichogenesis method from other purported treatments for the same ill by confining it to specialised dermatology clinics. So we baldies won't be able to go into just any old barber's and ask for "a little on the top".

Ticked off

■ Quality is the name of the game at the rejuvenated ICL, once Britain's computer champion, but now owned by Japan's Fujitsu. Executives are required to demonstrate their commitment to excellence by sporting enamelled lapel badges, featuring a distinctive "tick" motif.

However, eyebrows were raised at a recent residential management conference when Peter Bonfield, ICL's executive chairman, turned up for breakfast without his quality pin.

On being reprimanded, the resourceful Bonfield remained unflustered: "Oops" he said slyly, "must have left it on my pyjamas."

Be warned

■ Sign in a New York supermarket: "God helps those who help themselves, but we prosecute."

Patchwork could become a network

David Gardner and **Richard Tomkins** examine a monopoly-breaking rail accord by EC transport ministers

It is not too fanciful to believe that future generations of Europeans will look back on the events of last week and say: "That was the dawn of the railways' second golden age."

After decades of decline during which rail has lost its passengers and goods to cars, lorries and aircraft, this Cinderella of the European transport industry has at last received its invitation to the post-1992 ball.

On Thursday night in Luxembourg, EC transport ministers opened a window on to a new vista of a pan-European railway system, with trains chugging to and fro across a barrier-free single market instead of being locked inside national frontiers.

What the ministers agreed means that the railways will, if their governments wish, remain in public ownership, but that public or private-sector train operators wanting to offer international services between EC countries will have the right to run their trains on other countries' tracks.

The two main aspects of the monopoly-breaking agreement are:

- From January 1993, when the single European market comes into effect, a passenger or freight train operator in one EC country can agree to set up an international service with an operator in another country and have automatic right of access to all the tracks in between.
- From the same date, any EC company will have the right to operate "combined transport" freight services – those which shift cargo through a combination of rail and road – from its own country to any destination in the EC.

Theoretically, cross-border rail travel in the EC should have long since begun its renaissance. A combination of economic growth and the progressive dismantling of frontiers has put unprecedented strains on roads and airways. With environmental considerations arguing against the provision of more roads and airports, the EC's under-used railways should be coming into their own.

But a pan-European network has failed to emerge. Instead, railways exist as a patchwork of inward-looking national monopolies, each with its own types of trains which are often incompatible with other countries' tracks.

State ownership, together with the formidable cost of making the different railways systems compatible, has left the railways with little incentive to reverse the decline in their share of the international transport market.

Thus, freight trains continue to undergo laborious bureaucratic technical inspections at frontiers, together with changes of locomotives and crews, while lorries whistle past to their destinations. In the passenger market, too, the one serious attempt to compete internationally by creating a special fleet of up-market Trans-Europ-Express (TEE) trains in 1957 was eventually defeated by the trains' inability to compete with the speed of aircraft and the cheapness of cars.

The railways have not entirely given up on international transport. The prospect of a high-speed rail service between London, Paris and Brussels following the opening of the Channel tunnel is one bright light on the horizon. But underlying the European Commission's intent to engineer a revival of rail transport in Europe is the belief that the best chance of producing competitive international services is to open up the market to the private sector.

At present, there are barely any privately-owned trains running on EC railway tracks. Where they do exist, they do so only with special permission, and even then they are operated, maintained and inspected by the national railway undertakings.

For example, the Venice-Simplon Orient Express is owned by Mr James Sherwood's Orient Express Hotels, but the national railway undertakings of the countries it passes through supply the locomotives and crew to haul it. Similarly, a consortium of tour operators called Touristik Union International runs trains from Germany to holiday destinations in Italy, Austria and Yugoslavia, but does not supply the locomotives or drive them.

The implication of last week's decision is that passenger and freight train operators – probably mainly state sector operators to begin with, but private sector ones once the idea catches on – will be able to use their own trains, their own locomotives and their own crews to operate across frontiers, so enabling them to offer faster and cheaper services.

To make this possible, the new train operators will have to know what they must pay for the use of the tracks. An important plank of the ministers' agreement, therefore, is that railways must separate out their track operating costs so that people can see whether they are being charged fairly. This will bring railways more into line with EC road and air transport, where ownership of the infrastructure is separate from ownership of the vehicles or aircraft, and where deregulation is more advanced.

Other core measures in the package – both of them aimed at putting the state-owned railways on a more commercial footing – are requirements that the railway monopolies should be legally independent from the state under autonomous management, and that blanket rail subsidies should be replaced by specific government grants for the operation of certain socially necessary services.

State ownership, and the cost of making systems compatible, has left the railways with little incentive to reverse the decline in their share of international transport

Translating the measures into reality, however, will not be easy. It emerged last week, for example, that Denmark will need a judicial fudge on the requirement to put the railways under independent management because its railway company, like its army, is legally an integral part of the state. Germany will even have to change its constitution.

But following a meeting on Thursday night between Mr Karel Van Miert, EC Transport Commissioner, and EC rail chiefs, it is already clear that it is the German and Danish railways which are poised to move fastest.

"The Deutsche Bundesbahn is already looking for European partners," Mr Van Miert said with satisfaction, while Danske Statsbaner, the Danish state railway, intimated that it had been planning for just this form of liberalisation.

"The transport environment is moving in favour of railways," the Flemish socialist commissioner said. "I'm convinced that railway companies are now going to form cross-border entities, because some of them are going to take full advantage of this new dimension, this new opportunity."

Mr Van Miert recognises that the process could take many years, but believes that enhanced competition will eventually force many existing railway operators to consider new links and new markets.

A host of technical barriers, however, will have to be demolished before trans-frontier trains become anything like a normal feature of EC transport. Electrification voltages, platform widths, bridge heights, train weights, container widths and computerised train control technology all need to harmonised.

Rail chiefs told the Commission on Thursday that it would have to secure Community funding of about Ecu 2bn a year for technical harmonisation. Mr Van Miert believes this is do-able – possibly through widening the application of the regional policy budget, which is expected to be increased next year. But member states will also have to be persuaded to bear substantial costs.

Commission officials believe the chances of this are good because:

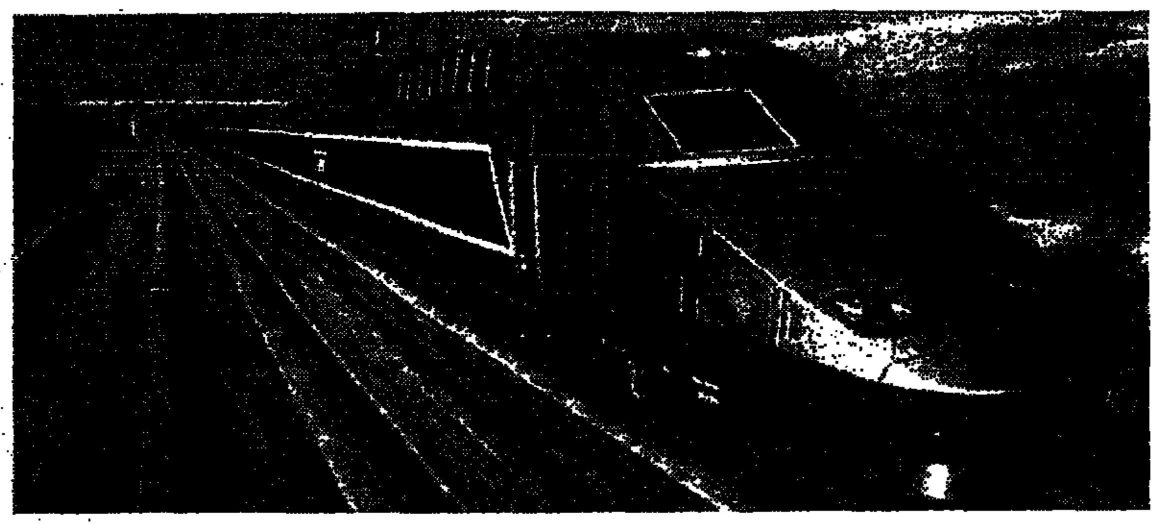
- First, when the new competition rules come into effect on January 1 1993, the onus will be on the newly independent managers of the railway companies to make a success of rail transport.
- Second, road and air congestion leaves few environmentally and socially acceptable alternatives to railways. "No member state is going to stand for a 40 per cent increase in road traffic by the year 2000," Mr Van Miert insists: "Public opinion will not accept it." Trains, as the Commission frequently asserts, are more energy efficient and less polluting than cars and lorries, and a new railway line takes up two-thirds less land than a road.
- Third, the cost of road haulage seems likely to rise slowly, but surely. Mr Van Miert wants road pricing across the EC – in other words, charging vehicles for the use of the roads on a pay-as-you-go basis. And today, EC finance ministers are expected to raise excise duties on diesel.
- Fourth, combined transport – whereby road freight is switched onto rail for the long-distance part of its journey – is the direction of future EC rail policy. It can currently be subsidised, but its economics will change as the cost of road use climbs.

There will undoubtedly be resistance in some member states to the package agreed last week. An early portent came at the ministerial meeting itself, when France led a move to put the cart before the horse by calling on the Commission to bring forward detailed technical harmonisation measures before liberalising.

But one reason why packages like this get through the web of national vested interests in the first place is that Brussels has some heavy calibre trust-busting artillery in reserve.

In this case, Article 90 of the Treaty of Rome (as reformed by the Single European Act), which opens up national monopolies, has the backing of a European court decision and is already being used to break the telecommunications network monopolies. Commission officials say they would not hesitate to use this provision if member states were found to be denying access to new rail operators.

Convincing some of the less enthusiastic national railway monopolies of the virtues of competition, however, may require some work. The opportunities for anti-competitive practices will be legion. As Mr Murray Hughes, editor of Railway Gazette International, remarks: "Whether the national railways will simply divert other people's trains into sidings at every possible opportunity, I just don't know."



Today France, tomorrow en route for the rest of Europe? The high-speed TGV Atlantique

Samuel Brittan

Time to 'let my people go'

The fate of the 1919 Peace Settlement showed the futility of trying to redraw the political map of Europe on purely ethnic lines.

But it is an altogether false moral from this experience to move to the opposite Animal Farm-like extreme, and endorse empires like the Soviet Union, established and maintained by force.

Six of the Soviet republics refused to participate in President Mikhail Gorbachev's referendum on a new union on the grounds that the populations had already decided that they wanted to leave the Soviet Union. The many all too plausible accounts of outrages inflicted in Soviet Armenia – to take just one example out of many – provide a sufficient human rights justification for allowing republics to leave the Soviet Union.

If they do, will they be exchanging a political gain for an economic loss? The European Commission recently argued that it would be preferable to keep in existence the Soviet economic and monetary union. This finding has been bravely challenged by Daniel Gros, a German economist based in Brussels, whose own appreciation of the benefits of large unions can scarcely be challenged, in view of his work for the Commission.*

The crucial difference between monetary union in western Europe and the Soviet Union is that Soviet republics differ radically among themselves in their ability to move to a market economy.

Different speeds of transition would put great strain on the rouble area. A common currency implies a common inflation rate. But the ability to secure a stable overall price level is likely to be far greater in the outlying republics than in the Russian heartlands where fiscal deficits, wage indexation and general corruption and dual markets will be very difficult to eradicate. If the more radical republics are to go ahead, divergence rather than convergence is likely to obtain.

That is not all. Once the transition to a market economy is made, some of the outlying republics are likely to trade far more with the outside world in general and the European Community in particular than with the rest of the Soviet Union.

A suggestive comparison can be made between Finland and neighbouring Estonia. At present trade with other Soviet republics accounts for more than 80 per cent of Estonia's total trade. Yet neighbouring Finland carries out only 11 per cent of its trade with the Soviet Union, despite a desire to remain friendly, and 42 per cent with the European Community. Were the Baltic states given the choice, they would almost certainly take the Finnish route. Indeed some republics now in the Soviet Union would surely find it more sensible to use the Ecu than the rouble as a common currency. Yet the Commission neglected a link with the Community as an alternative for these republics to remaining in the Soviet Union. (Sometimes I wonder if the best friends of the Bruges group are not in Brussels.)

As Mr Gros argues, radical economic change is easier for the smaller and more homogeneous republics than for the entire Soviet Union where the obstructive power of the military-industrial complex is much greater. Some Russian inhabitants of the Baltic states have thus favoured independence for economic reasons; and it would be a tragedy if the republican governments were to alienate them by repeating historical errors, such as making key appointments on ethnic lines.

But having given this warning, it is still true that the economic arguments, far from weakening the case for independence, serve to strengthen it. The real obstacle is the excessive investment that the west has made in Mr Gorbachev.

Economic Costs and Benefits of Regional Disintegration in the Soviet Union, Centre for

LETTERS

Telling all on single currency

From Mr Julian Eccles.

Sir, Mr John Major, the prime minister, now tells MPs that there should be no single currency until there is more convergence between the British and European economies.

He might find his economic competence more highly rated if Britain's economy did, indeed, converge towards the 3 per cent inflation and 10 per cent interest rates of France and Germany and the industrial growth and investment of virtually every other EC country. This seems rather improbable before the crucial EC summit and IGC in Maastricht in December. He is therefore unlikely to accept the single currency this year.

However, he still hasn't ruled it out for ever. His reference to moving towards the narrow bands of the ERM is a clue to where he may be going: appearing more European before summits but not accepting much substance at them. In 1990 this plan had Britain joining the ERM (with sterling previously shadowing the DM) before the Rome summit but not accepting Emu at it. This year it will be sterling in a narrower band but no agreement to a single currency.

Sooner or later the committees will rumble this, as will the British parliament, and John Major will be forced to tell them, unconditionally, whether he actually wants a single currency or not.

Julian Eccles,
Flat 1,
252 Camden Road, NW1

European unity: flawed constitutional thinking, and the real meaning of 'federal'

From Mr René Smits.

Sir, Your editorial of June 19 contains a clear vision of Europe and rightly calls for constitutional thinking. Nevertheless, your own constitutional thinking contains two flaws.

It may indeed seem petty thinking to attribute competences to the EC in the various fields of activity contemporary governments enter into.

Be that as it may, the formation of a federation consisting of the states of Europe is bound to operate within the confines of international law and theory. These imply that competences which are not given to an international organisation (which the EEC technically still is) reside with its member states.

Since there are valid reasons for Community action in areas as diverse as poultry production and television broadcasting there seems to be no way round attributing to the Community further competences in the various fields of government intervention which, even in liberal market economies, are considered necessary.

Where your vision clearly slips is when you advocate a curtailment of the powers of the Commission. No viable way of governing Europe can be imagined if the current balance of powers is not shifted towards the only institution which is subject to democratic control at the European level, ie: the Commission.

Only when the Council, through greatly enhanced transparency of decision-making, is to assume more and more the function of a senate or upper house in the EC legislative process, can there be truly democratic government over the Community. If too much emphasis is laid on the political accountability of ministers before the parliaments of the member states, the process of inter-state horse trading will continue and the possibility of a European consensus or coalition over the issues to be decided in the political process would recede rather than being brought nearer.

It is a pity that, ever since Mrs Thatcher stepped down, the Financial Times, as Europe's leading business newspaper, seems to incline to views which are particular to Britain; the use of unwarranted descriptions, such as the Commission being "a thoroughly undemocratic body", is a case in point.

As it is, the Commission is the only body which is responsible before the European Parliament which can send its members home collectively.

René Smits,
13 Florence Nightingalestraat,
NL-2131 EA Hoofddorp
The Netherlands

From Mr John Grayston.

Sir, For those who travel regularly on the continent, or those who even live over here, it comes as no surprise to find that the English language is universally used by both businessmen and politicians of most European countries.

Of course certain words or expressions employed by non-native English speakers are occasionally used in unusual or incorrect contexts. Despite grammatical error, however, the meaning is normally apparent.

It may, therefore, have come as a bit of a surprise to these European English speakers that, when it comes to deciding what a word actually means, the British can be as unsure of their own language as the rest.

"Federal" is a word that seems to have defeated the collective understanding of the nation's political élite. Would they find it any easier to attempt to answer the following clue as it might appear in the Financial Times crossword?

"A system of government in which several states form a unity but remain independent in internal affairs" (seven letters).

This definition, taken from the Oxford English dictionary rather than the Delors Guide to Europeak aptly demonstrates the real issue.

Rather than quibble about exactly what is meant by federal should we not accept that since 1973 the EC has performed a "federal" function and that the real issue before the IGC on political union is how to define "internal affairs".

John Grayston,
Ave. Commandant Lothaire 72,
Brussels
Belgium

Questioning the transparency and bases of directors' bonuses

From Mr J W Tayler.

Sir, I am astounded at the rapacity of senior directors of Britain's large companies. That their average gross salary increases have far exceeded inflation in the last few years is bad enough, but now here do we hear how enormously they have benefited by lower tax rates – equal to a 20 per cent increase in take-home pay.

To say that bonuses are paid in arrears – which means that substantial pay increases can coincide with poor corporate results – only increases the frustration of others. If a company's financial controls were good enough, payments to directors should appear monthly and shareholders could see the ups and downs of directors' pay relating to their company's returns.

International comparison does not wash either. Workers, too, can go abroad to obtain salaries at international averages. So do directors permit their staff to cite other nations' salaries in pay bargaining? Even if permitted, does it cut much ice? It does not.

Warren Tayler,
94 Lupus Street, SW1

From Mr Tim Ward and Prof Roger Mills.

Sir, Do the performance measures used to create wealth for shareholders? Recent large performance-related pay awards to captain's of industry are to be welcomed – if, that is, performance measures used are correlated with acceptable increases in value for shareholders.

In many cases earnings per share (EPS) growth is a key component of measures used to calculate performance pay. But, as Michael Barron and John Lawless said in their article, "Growth of no account", (Business Magazine, September 1988): "Statistically there is, overall, only a modest relationship between shareholder return and EPS growth and virtually no relationship at all with return on equity."

Chairmen of public companies are presently devoting their time to restructuring their businesses to improve performance. Costs associated with this activity will not deflate EPS as they are likely to be treated as extraordinary items. It is to be hoped that recent focus on corporate governance will increase pressure on companies to move to measures of value creation which are more strongly correlated with the goals of shareholders.

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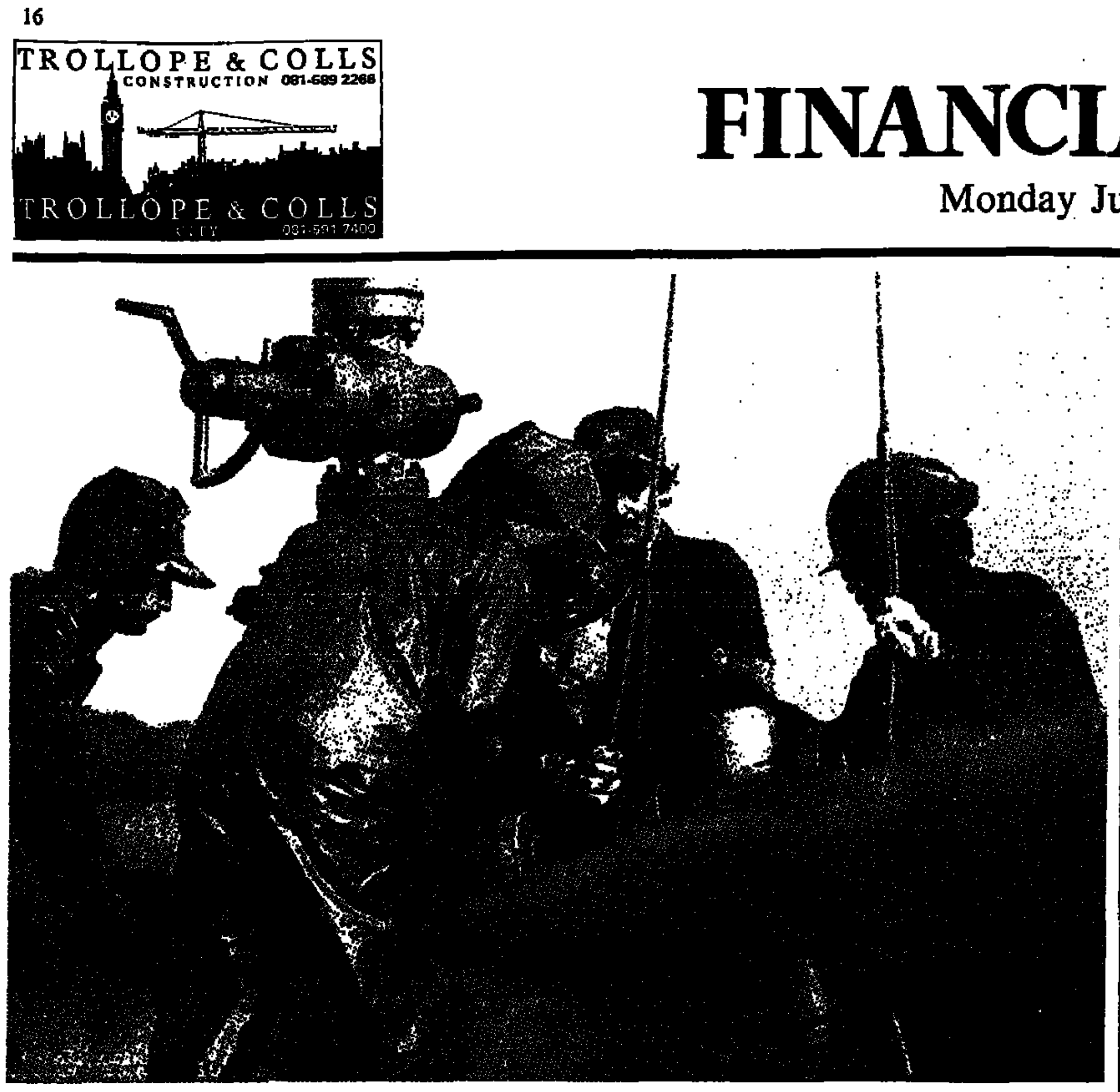

Delicate work: expert firefighter Red Adair (centre) and his team at a vital moment as they attempt to cap a Kuwaiti oil well. Mr Adair has criticised local bureaucracy for hampering the operation to control fires in the Kuwaiti fields

Foreign groups line up to replace devastated telecommunications

AT&T set to win Kuwait contracts

By Paul Abrahams in Kuwait City

AN ACRIMONIOUS struggle between European and American telecommunications groups in Kuwait is likely to end with AT&T of the US, GPT of the UK and Alcatel of France winning the greater share of contracts worth at least $400m.

Politics rather than technical or financial merit are likely to play a significant role in the allocation of the contracts, with groups from nations which took part in Kuwait's liberation expected to sign substantial deals once the Kuwaiti government agrees a budget later this summer.

Ericsson, the Swedish group which had about 90 per cent of the Kuwaiti telecommunications market before the war, is likely to be sidelined. Sweden was neutral during the Gulf war.

The contracts are among the largest concluded for the reconstruction of Kuwait after its liberation from Iraqi forces.

Kuwait's telecommunications infrastructure was devastated by Iraqi occupation forces and allied bombing. Although 85 per cent of surviving exchanges have been reconnected to the system, only about half the country's 600,000 subscribers are connected, according to one equipment supplier.

The main winner in the telecommunications war is AT&T, which has been particularly aggressive in its marketing efforts and has already won the bulk of the $70m allocated for emergency repairs to Kuwait's telephone system.

As reconstruction proceeds, the company is favourite to pick up the largest telecommunications contract – the $100m-plus replacement of an international exchange in Kuwait City destroyed by allied bombing.

The US group held only 5 per cent of the Kuwaiti market before the war. It had been handicapped by a ban on companies with Israeli links.

Some rivals are bitter at the way AT&T has marketed its products, often denigrating those of others. The battle has been unusually intense because Kuwait is in the unusual position of needing to acquire large quantities of sophisticated equipment and being able to afford it.

The Kuwaiti ministry of communications says AT&T provided international telephone links to the rest of the world only 37 hours after the liberation. Over a six week period it provided 600,000 calls worth $14m free of charge.

GPT is strongly tipped to pick up a contract worth between $8m and $10m to rebuild a transit exchange at South Sabahiya destroyed by allied action. The group is also well-placed to win orders for four local exchanges in Umm al-Haiman, Failaka, Abdaly and Wafra.

Alcatel is expected to supply Kuwait with emergency microwave links and cabling equipment.

Ericsson has been offered a contract to maintain its own exchanges, a contract which had been in doubt at one stage. But the future of a SKr290m ($44.6m) mobile system the company was installing before the Iraqi invasion is unclear. The Iraqis ransacked the group's warehouse, looting all its base stations, generators and spare parts, as well as a complete mobile exchange.

Competition hots up in European compact van market

Matra queries EC aid for Ford-VW plant

By William Dawkins in Paris

MATRA, producer of the Espace compact van, has asked the European Commission to investigate the legality of a proposed aid package for two of its main rivals to build a Es400bn ($2.46bn) plant to make a similar vehicle in Portugal.

The French space, telecommunications and transport group suspects that Portuguese government and European Community regional aid for the project, run by Ford and Volkswagen, could create unfair competition in the rapidly growing market for family vans.

Matra holds more than 50 per cent of the European market for family vans, having pioneered the concept in 1984. It dominated the market under the Renault badge until competition from Japan and the US started to make an impact last year. Matra says it accepts competition, but only on fair terms.

Portugal is offering Ford and Volkswagen a package that could be worth up to Es120bn, including an Es80bn cash grant, of which 70 per cent could come from European Community funds. The French company has written to three European commissioners drawing attention to the fact that the incentives alone for the project dwarf Matra's entire, self-financed, FFr1.5bn ($240m) investment in the Espace project to date.

The Commission is studying the letter and will attempt to define a response in two to three weeks, at the meeting of state aid experts which was due to give the green light to the Portuguese project.

While Matra has not made a formal complaint, a senior official of the French company says it will take legal action if the Commission's reply is unsatisfactory. The group's legal advisers believe the project is covered by an article of EC competition law outlawing state aid found incompatible with the common market.

The Espace is distributed by state-owned Renault, the recipient of substantial government aid in recent years. The car division of privately owned Matra has never received a state subsidy.

Commission officials are open-minded on Matra's objections, but they are surprised that the French company reacted so late. Matra says it was never consulted. Ford and Volkswagen signed a draft agreement with the Portuguese government only two weeks ago, following months of well-publicised competition from Ireland and Spain. Brussels has to vet all motor industry projects with state aid of more than Ecu12m ($13.8m).

The plant, to be built in Palmela, south of Lisbon, would employ about 5,000 and produce 170,000 high-roofed, seven to eight-seater estate cars a year by 1996, likely to represent more than a third of the market by then. Over the same period Matra is budgeting to more than double its own 50,000-60,000 vehicle a year output.

Competition is already growing fast, from Toyota, Nissan and Mitsubishi, while most leading European carmakers are also understood to be developing compact vans. Matra believes demand for this kind of vehicle will grow strongly, from more than 100,000 a year now to between 400,000 and 600,000 by 1995.

Antarctic protection talks to resume late this year

By Tom Burns in Madrid

TALKS AIMED at agreeing a 50-year ban on commercial mining and oil exploration in Antarctica will resume later this year, in spite of the US refusal at the weekend to endorse the plan.

The US blocked the adoption of a protocol agreement by the 39 signatory nations of the Antarctic Treaty. They had met in Madrid expressly to sign the deal following high-level talks under Spain's chairmanship in April.

The Spanish delegation said further talks would be held, probably in September, to find a definitive text. Delegates, including Australia, which is the main sponsor of a permanent ban on mining, appeared hopeful that US reservations could be overcome.

Mr Curtis Bohlen, the US delegation chief, withheld support for an article in the draft protocol calling for a 50-year ban on non-scientific mining in Antarctica. According to the draft, a favourable vote by 75 per cent of the signatory nations was required at the end of the 50-year period to overturn the ban.

Mr Bohlen had moved a counter-proposal which would have allowed the ban to be overturned after 50 years by a majority of the treaty's 26 voting members.

Faced with an overwhelming majority in favour of the draft plan, Mr Bohlen halted proceedings by saying he required more time to consult his government.

Mr Bohlen was at pains to stress that the delay was "a neutral act" and did not imply a rejection of the draft proposal. Other delegates seemed satisfied that the US would eventually come round to accepting the protocol in more or less its present form.

The US decision prompted widespread fury among environmental groups. Mr Paul Bogart, Greenpeace representative at the talks, said: "[US president] Bush has made it clear that no price is too high to pay if it protects his economic interests."

Mr Jacques Cousteau, the French oceanographer, said the Madrid meeting represented a "lamentable delay" to the protection of Antarctica.

Pressure for agreement on Emu

Continued from Page 1

Pressure to reach firm decisions on European union comes amid growing nervousness throughout the Tory party over an extensive television interview due to be recorded by Sky TV with Mrs Margaret Thatcher, the former UK prime minister, today for broadcast on Wednesday.

After her two speeches in the US last week provoked a vicious public row with her predecessor, Mr Edward Heath, the MPs fear that she might be tempted to use the interview to resume her offensive against the federalist lobby.

Yesterday, government ministers were attempting once again to unite the Conservative party around Mr Major's strategy. This entails keeping all Britain's options open until the conclusion of the negotiations on monetary and political union in December.

However, Mr Chris Patten, the Tory party chairman, confirmed that UK opposition to a "supra-national" Europe was a "clear bottom line" well known to community partners.

Mr Major would explain that Britain took the concept of parliamentary sovereignty "a shade more seriously" than some other countries due to its historic freedom from invasion or authoritarianism. "That gives us a particular concern about our parliamentary institutions and we are not going to want to do anything that erodes them."

Continued Tory agonising over European issues is delighting the opposition Labour party. Mr Neil Kinnock, the Labour leader, flies to Bonn today for talks with chancellor Helmut Kohl and Mr Hans Dietrich Genscher, the German foreign minister.

Ironing out the inequalities

By John Plender

Since the leading industrialised countries progressively scrapped exchange controls over the past decade, footloose international capital has flowed with relative efficiency across national boundaries to the bond markets that offer the best returns. Within the European exchange rate mechanism (ERM), the trend towards interest rate convergence is well established. Yet, in contrast, multiples and yields in world equity markets continue to throw up apparent anomalies and the cost of capital still appears not to equalise across national boundaries – this despite the growth in international share dealing. Will these apparent inefficiencies in the pattern of capital flows ever be ironed out?

Of course, some die-hard free market academics deny that international equity markets are inefficient at all. But fund managers who lived through the recent Japanese stock market bubble tend to be more sceptical, as do the western industrialists who were obliged to compete with Japanese companies that financed themselves in the late 1980s at a negligible capital cost. Many feel that the present yield relationships between London, New York, Tokyo and Frankfurt do not look right but are unlikely to be corrected in the short term. That is because there are perfectly good reasons why anomalies should exist; and the interesting question is how durable they turn out to be in the face of developments such as the completion of the European market and European Monetary Union.

If currency risk in Europe is eliminated, fund managers will naturally seek to allocate assets on a European rather than purely national basis. Not to do so would be the equivalent of a Welsh fund manager refusing to invest in English equities. A more difficult issue in a monetary union with a German-style independent central bank is whether continental European investment habits become more Anglo-Saxon or the British go continental.

Anglo-Saxons sometimes forget that equities once played a more important role in German investment than they do today. Back in 1970, they accounted for 21 per cent of German life funds' total securities portfolios; by the mid-1980s, they had fallen to a mere 8 per cent. German private individuals' equity holdings took a similar plunge. One reason for this shift in portfolio preference is that bonds, supported by the Bundesbank's impressive management, performed better than equities.

Once sound monetary policy becomes a habit, the structure of financial liabilities tends to reflect the experience of stable prices. Three-quarters of German pension funds, for example, promise to pay fixed nominal amounts to their members related to the number of years in employment. If the average British pension fund, which currently invests a mere 4 per cent of its portfolio in fixed interest government stock, were to experience the benefits of sound money, it is conceivable that the appetite for fixed interest might increase. And there would certainly be a ready supply of corporate fixed interest paper, if nominal interest rates were in single figures. This is just as well when you consider that on present trends there will be a diminishing amount of equity available in British quoted companies because Lord Hanson in his 90s will have had to gobble up most of the UK stock market to keep his earnings rising.

More seriously, if Lord Hanson's takeover activities provoke a political backlash, British equities might become more like German equities. With reduced pressure applied to them by raiders, industrialists might adopt the less generous dividend policies that characterise the German markets.

That said, there are certainly pressures on continental Europeans to change their spots. One is from foreign investors on continental European companies to pay more to their shareholders. Another is a draft directive from Brussels which is expected to address regulatory controls on portfolio management. In countries like Belgium and Italy, with a tradition of big fiscal deficits, institutional investors have been obliged to put a high proportion of their cash flow into government bonds. Even in Germany, life insurers were obliged in the 1980s to invest a majority of their funds in bonds and no more than 4 per cent in foreign securities.

The justification for such controls is prudence. Yet modern portfolio theory suggests that limits on foreign investment may actually increase risk because of the lack of diversification and that controls on equity investment can reduce returns substantially with little reduction in risk. Anyone who has followed the history of British pension fund investment abroad, especially in property, may well feel that experience is at odds with the theory. But arguments about prudence in relation to currency risk clearly become academic in a monetary union; and the European Commission could be on strong ground in attacking those portfolio controls that inhibit a free market in European capital.

Then there is the impact of demography. In most of the European Community, private occupational pensions have been a marginal supplement to generous state provision: more than three-quarters of the Community's pension funds are in Britain and the Netherlands. But there is now a widespread concern about the ability of governments to meet future pension liabilities. Fiscal incentives are thus being provided to encourage the growth of independent pension schemes. The resulting transfer of funds from private to more sophisticated institutional investors could well increase the Europe-wide demand for equity. Unless continental European governments do more to encourage companies to float, the beneficiaries of this new demand will lie disproportionately in the English-speaking economies, affording them lower capital costs than they would otherwise enjoy.

On balance, though, it seems likely that equity market returns in Europe will move closer together over the long run. But they will never converge as long as national legal systems and cultural habits remain intact. The German system treats shareholders with less respect than the British and many Germans regard that as one of the reasons for their economic success – a thought worth pondering in the context of the present debate on corporate governance in Britain.

■ *See BIS Economic Paper No 31: Financial Market Activity of Life Insurance Companies and Pension Funds by E.P.Davis*

Gorbachev choice

Continued from Page 1

in the Supreme Soviet, andapparently succeeded in squashing a move by Mr Pavlov for more prime ministerial powers – a move which senior Soviet officials believe could have developed into a full-blown struggle for power. This followed a mammoth, eight hour meeting on Thursday between Mr Gorbachev, Mr Pavlov, Mr Boris Bugo, the hardline Interior Minister ,and Mr Anatoly Lukyanov, the chairman of the Supreme Soviet.

Mr Vladimir Kryuchkov, KGB chairman, told the Supreme Soviet last week that western aid of the kind foreshadowed in the Yavlinsky plan was "an illusion".

Black S African leaders meet

By Philip Gawith in Johannesburg

EFFORTS to end the violence which has claimed the lives of more than 10,000 black South Africans since 1984 were boosted over the weekend when leaders of the main parties involved met together nationally for the first time to discuss a solution.

The peace summit, convened by a joint group of clergy and businessmen, was attended by all significant parties, including the government, the African National Council and Inkatha. Only the right-wing Conservative party, and its allies, declined to attend.

The meeting resulted in the establishment of a "preparatory committee" to consider and draft proposals on issues identified as being necessary to end the violence.

The most important of these were the establishment of codes of conduct for political organisations and the security forces, socio-economic development and reconstruction, and enforcement mechanisms such as a statutory standing commission and peace secretariats at national, regional and community levels.

Saturday's peace summit was the sequel to a similar initiative organised in May by the government. Following the decision of the ANC and its allies to boycott that summit a committee was established to integrate the ANC and others who had boycotted the May meeting into a national effort to stop the violence.

This committee of 12 was made up evenly of businessmen and church leaders. It included prominent clergy such as Archbishop Desmond Tutu, Dr Frank Chikane and Dr Johan Heyns. Business figures included Mr John Hall of Barlow Rand and Mr Bobby Godsell of Anglo American.

The preparatory committee consists of the original 12 plus three representatives from each of the government, ANC and Inkatha. It will report on its progress by the first week in August. Contact will be made with those who declined to attend the meeting, with a view to convening a further, inclusive forum, where binding resolutions can be reached.

Lending support to the peace process is Archbishop Trevor Huddleston, the veteran anti-apartheid campaigner, who returned yesterday to South Africa for the first time in 35 years.

WORLDWIDE WEATHER

		°C	°F			°C	°F			°C	°F			°C	°F			°C	°F
Ajaccio	S	24	75	Berlin	S	23	73	Caracas		–	–	Faro	S	25	77	Islamabad	F	37	99
Algiers	S	27	81	Biarritz	S	23	73	Casablanca	S	25	77	Florence	S	29	84	Istanbul	F	25	77
Amsterdam	F	16	61	Bombay	F	31	88	Chicago	S	18	64	Frankfurt	S	23	73	Jakarta	F	32	90
Athens	S	30	86	Bordeaux	S	25	77	Cologne	F	21	70	Geneva	S	24	75	Jersey	C	16	61
Bahrain	S	35	95	Boulogne		–	–	Copenhagen	F	17	63	Gibraltar	S	23	73	Johannesburg	S	13	55
Bangkok	C	31	88	Brussels	F	18	64	Corfu	S	29	84	Glasgow	C	16	61	Lima	C	20	68
Barcelona	S	24	75	Budapest	S	27	81	Dallas	F	19	66	Helsinki	C	16	61	Lisbon	S	27	81
Beirut		–	–	Buenos Aires	F	14	57	Dublin	C	17	63	Hong Kong	R	26	79	London	R	14	57
Belfast	C	15	59	Cairo	S	34	93	Dubrovnik	S	27	81	Innsbruck	F	25	77	Los Angeles	C	17	63
Belgrade	S	27	81	Cape Town	R	13	55	Edinburgh	R	15	59	Inverness	C	16	61	Luxembourg	F	20	68

		°C	°F			°C	°F			°C	°F			°C	°F			°C	°F
Madeira	S	23	73	Milan	S	28	82	Nicosia	S	28	82	Salzburg	F	23	73	Tenerife	S	27	81
Madrid	S	31	88	Montreal	S	16	61	Oporto	S	21	70	San Francisco	C	12	54	Tokyo	R	22	72
Majorca	S	27	81	Moscow	C	23	73	Oslo	C	15	59	Seoul	R	21	70	Toronto	S	17	63
Malaga	S	24	75	Munich	F	25	77	Paris	F	20	68	Singapore	F	31	88	Tunis	S	27	81
Malta	S	30	86	Nairobi	F	22	72	Peking	S	27	81	Stockholm	F	19	66	Valencia	S	28	82
Manchester	F	17	63	Naples	S	28	82	Prague	F	23	73	Strasbourg	F	25	77	Venice	S	26	79
Manila	C	33	91	Nassau	F	33	91	Reykjavik	S	11	52	Sydney	C	11	52	Vienna	S	27	81
Melbourne	R	13	55	New Delhi	S	37	99	Rhodes	S	28	82	Taipei	R	26	79	Warsaw	F	25	77
Mexico City	C	25	77	New York	C	17	63	Rio de Janeiro	C	26	79	Tangier	S	29	84	Washington	R	18	64
Miami	F	27	81	Nice	S	23	73	Rome	S	25	77	Tel Aviv	S	27	81	Zurich	S	24	75

Temperatures at midday yesterday C–Cloudy Dr–Drizzle F–Fair Fg–Fog H–Hail R–Rain S–Sunny Sl–Sleet Sn–Snow T–Thunder

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EGYPT

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SECTION III

Monday June 24 1991

President Mubarak has enhanced his prestige and won over friends in the west by backing the US side against Saddam Hussein in the Gulf war. **Roger Matthews** analyses whether Egypt can reap any advantage from its choice and looks at the country's prospects at a time of economic belt-tightening

Mr Mubarak scores a Gulf triumph

EGYPT CAN be a dangerous place for visiting optimists with short memories. Politicians and senior civil servants are so practised at expressing what they would like to happen, or more especially what they believe their audience would like to happen, that it is tempting to make too modest an allowance for what has passed before.

Egyptian optimists, headed by President Hosni Mubarak, are currently at their most seductive. What makes them more than usually effective is that their message is being broadcast on highly fertile land, to a world anxious to find positive perspectives in a generally miserable picture of the Middle East following the Gulf war.

There is so little to applaud from the Maghreb to the Gulf that Egypt, because of its relative stability and self-confidence, finds itself more than ever feted by its international friends. Only the most hardened cynics are therefore dismissing out of hand Mr Mubarak's stated determination to revolutionise the country's economy and not to flinch at the political and social pain that such a programme will inevitably inflict.

Although dutifully noted, Egypt's commitment to escape the debilitating grip of more than 30 years of centrally-planned, bureaucratic economic mismanagement and waste has attracted far fewer headlines than have similar programmes in eastern Europe.

In part, that is because the countries of eastern Europe are singing an entirely new tune, whereas Egypt is humming a well-known theme which, while several times repeated, has never in the past progressed much beyond the opening few bars. The music is provided by what Mr Mubarak likes to call the International Misery Fund with additional scoring by the World Bank and the Paris Club of creditor nations.

Egypt was already girding itself to face this particular music last August when Saddam Hussein invaded Kuwait. It had stopped servicing part of its estimated $50bn international debt, the central bank was desperately short of hard currency, the budget deficit was running out of control, inflation had reached close to 30 per cent, and prospects for growth were poor at a time when the nation needs to find 500,000 new jobs a year to cope with the surge of young people coming on to the market for the first time.

Not for the first time in the country's history, the audience blinked and the picture changed. Egypt suddenly became not a poor supplicant but a crucial element in the American-led effort to force Iraq out of Kuwait. Egypt's vigorous support for the US, fuelled by Mr Mubarak's fury at the personal deceit of MrSaddam Hussein, provided regional cement for the alliance and a powerful counterweight to the popular support for the Iraqi leader which emerged in north Africa, among the Palestinian people and in Jordan. Egyptian troops, together with units from Syria, were sent to Saudi Arabia as the most credible Arab deterrent to Saddam Hussein's ambitions.

Mr. Mubarak may have gained more from the successful completion of the Gulf mission than any western leader, including President George Bush. His prestige domestically has been enhanced. He acted decisively and with conviction, qualities which he not often previously demonstrated. He emerged on the winning side, a relatively rare feat for an Arab leader in recent years. The Arab League has returned to Cairo and within that organisation Egypt is again the unquestioned leader of the moderate majority.

Mr Mubarak can decide for himself whether or not he is at home to Mr Yassir Arafat, chairman of the Palestine Liberation Organisation, or to King Hussein of Jordan. And, unlike Mr Bush, the Egyptian leader will not suffer from the political and physical mess that has been left behind in the Gulf. There is no surprise in Cairo at the behaviour of the restored Kuwaiti government or that Saddam Hussein still holds sway in Baghdad.

Alan Harper

President Mubarak: on the winning side in the Gulf War, his prestige has been enhanced

Materially, Egypt has also been well rewarded. Debt forgiveness by the US and the Gulf states has amounted to around $15bn. It has received injections of some $2bn from the Gulf to offset the loss of workers' remittances and the sharp fall in revenue from tourism. The Paris Club creditors have agreed to reduce Egypt's debt-servicing commitments by about 50 per cent, on a par with that granted to Poland. A new agreement has been signed with the IMF, with the World Bank contributing $400m to a social fund designed to ease the transition promised by Egypt to a more market-oriented economy.

There is, of course, a price to pay. The Paris Club debt forgiveness is tied to the IMF/World Bank agreement which is itself conditional on Egypt keeping within the limits and ceilings it has agreed. In the past Egypt has tended to pocket the first tranche and then find the rest of the package too difficult to implement. The main difference this time is that Egypt has delivered some of the requested reforms in advance of the first tranche.

For example, Egypt's proliferating exchange rates have been reduced virtually to one, banks have imposed a short, sharp squeeze on new credit, a sales tax has been introduced and other measures taken towards reducing the budget deficit from 20 per cent of gross domestic product this financial year (one of the top five in the world) to closer to 10 per cent of GDP next year, with further reductions pledged.

Changes in the law have meanwhile been designed to reorganise the ponderous public sector, reduce the capacity of ministers to interfere in the running of companies, and take the first steps towards what might eventually, many years ahead, become a full privatisation programme. There are few more challenging tasks in Egypt given the great range of vested interests which would be affected and the difficulty of finding enough managers with sufficient commitment to change the working practices of generations.

Mr Mubarak says that he has explained everything to the people and they know the reforms will be difficult and that the general economic situation in the year ahead will be tough. With little or no growth expected, inflation running at nearly 30 per cent and pay increases intended to be held in the public sector at no more than 15 per cent, the majority of the population will take a real cut in its already very limited purchasing power.

Monitoring public opinion in the country is notoriously difficult, and since the bread price riots of January 1977 every Egyptian government has lacked all enthusiasm for embarking on a course of action which is perceived as threatening the basic living standards of the mass of the country's urban poor. In response, Mr Mubarak says that the country, and supposedly therefore his ministers, have embarked on this course because there is simply no alternative.

However, President Mubarak has not completed nearly 10 years at the country's helm without having a clear idea of what might constitute political suicide. Recent events in Algeria have been followed closely by the Egyptian leader and there seems little chance that he will heed those who argue that economic liberalisation cannot hope to succeed without parallel political reforms. He is equally aware that his western friends will not want him to be too ambitious.

The US Administration, for so long unconvinced that Mr Mubarak could ever be such a good friend as President Sadat, appears to have been won over by his reaction to the Gulf crisis. In return, Mr Mubarak speaks of the Bush government in glowing terms, even to the extent of professing total faith in Washington's determination to resolve the Palestinian issue, despite all the negatives emerging from Israel.

It seems all too probable that Egypt's central political role in the Middle East will again provide whatever safety net is required should the government's efforts at economic reform either prove too much for the people, or too little for the international community. Little wonder that Mr Mubarak is optimistic.

KEY FACTS

Area	997,668 sq km
Population	54.5 million (1990 estimate)
Head of State	President Hosni Mubarak
Currency	Egyptian pound (E£)
Average Exch Rate	1989 $1 = E£1.10
	1990 $1 = E£2.00

ECONOMY	1989	1990
Total GDP (£E)[1]	64.7	68.0
Real GDP growth (%)	+5.3	+2.1
Consumer prices (% pa)	+21.3	+16.8
Components of GDP (%)		
Private Consumption	80.5	N.A.
Gross Fixed Investment	23.2	N.A.
Stockbuilding	0.4	N.A.
Government Consumption	12.7	N.A.
Exports	21.7	N.A.
Imports	-38.4	N.A.
Total external debt ($bn)	48.8	48.7
Debt service ratio (%)	21.8	21.0
Reserves minus gold ($m)[2]	1,520	3,790
Discount rate (% pa)	14.0	14.0
Current Account Balance ($bn)	-1.69	-2.25
Exports ($bn)[3]	3.76	4.30
Imports ($bn)[3]	11.42	11.70
Trade Balance ($bn)	-7.66	-7.40
Trading Partners (% share)	Exports	Imports
Italy	14.1	7.0
Romania	11.7	
Israel	10.4	
US	15.4	9.7

Notes: (1) GDP figures apply to fiscal year ending June 30, 1990. Figure is an EIU estimate.
(2) End-September figure.
(3) Balance of Payments basis.

Sources: Economist Intelligence Unit, IMF, Datastream

IN THIS SURVEY

Tony Walker examines the IMF and World Bank reforms

Life raft for the economy

LIKE a drowning man who finds a life raft drifting miraculously towards him, Egypt's economy is being given another chance. But salvation is by no means assured. Escape will prove difficult.

Egypt's acid test lies in its ability to sustain a tough economic reform programme that risks social upheaval. Its record of failed attempts to drag itself out of the economic mire does not inspire confidence. And yet there are differences this time that may help to produce a more sustained effort.

The International Monetary Fund with the World Bank have fashioned a programme that will exact heavy penalties if Egypt reneges on its commitments.

This carrot-and-stick approach, with substantial emphasis on the stick, follows the collapse of an IMF programme in 1987. This time, the Bank and the Fund have collaborated to a perhaps unprecedented degree in taking account of Egypt's special requirements. If successful, the programme may come to be regarded as a model for other countries facing similar difficulties.

The main thrust of the reforms is aimed at obliging Egypt to turn off the subsidy tap – thus reducing the budget deficit – and begin the lengthy and painful process of structural reforms of a highly centralised and debt-burdened economy.

In return for "good behaviour", Egypt is being rewarded with substantial debt forgiveness, a package of structural adjustment loans and other forms of assistance such as $400m in grants for a so-called "social fund". The fund would be utilised to train labour made redundant by economic reforms and also to provide "seed money" for new small enterprises.

"These are a tightly conceived and designed set of programmes and a big contrast with 1987," says one foreign economist. "Egypt has no easy options. If the government resumes a higher level of government expenditure and wage growth it would lead to a cut-off of sources of financing.

"The IMF and World Bank both have Egypt on the hook and it won't be easy for it to wriggle out of its commitments if it wants to continue to reap the benefits of debt forgiveness and structural assistance."

A senior government economic adviser, directly involved in negotiations with the bank and the fund, insists that the government is committed to the reforms, in spite of the obstacles and difficulties.

The IMF agreement, concluded in May, provides Egypt with a standby loan totalling SDR272m. More important, it cleared the way for a Paris Club agreement to forgive half the Egyptian government's guaranteed debt of about $20bn based on net present value applying from July 1991. Again, debt forgiveness is firmly tied to Egypt meeting its IMF and World Bank obligations on long overdue economic reforms.

Debt forgiveness will be carried out over three stages beginning with a 15 per cent reduction on July 15, to be followed soon thereafter by a further 15 per cent, and a final reduction involving an additional 20 per cent applying from July 1994.

Egypt's total foreign debt, assuming that it is able to sustain reforms beyond 1994, stands at about $25bn. Before the Gulf crisis external debt exceeded $50bn. Apart from the debt forgiveness agreed to by 17 western creditor nations, the US forgave Egypt's $6.7bn military debt and Gulf states wrote off debts of $6bn.

"The Egyptians," says a western economist, "should erect a statue to Saddam Hussein in (Cairo's central) Tahrir Square."

The IMF-World Bank reform package differs from the 1987 programme in another important respect. This time, Egypt has been obliged to introduce several measures "up front" to demonstrate good faith. These include the removal of ceilings on interest rates; further streamlining of the exchange rate regime; introduction of a new sales tax; and fairly steep price increases, especially on fuel and electricity.

The sales tax, which has experienced some teething troubles, is expected to add about LE1bn in revenue annually to government coffers. The authorities, in their effort to boost revenues, are revitalising the system of tax collection whose burden falls unfairly on government employees.

A western tax expert argues that with sophisticated methods and a more determined approach, Egypt should be able to double tax receipts.

In line with understandings it reached with the IMF, the government announced that the budget deficit would be reduced to 9.5 per cent of GDP in fiscal 1991-92, compared with an estimated 20 per cent of GDP in 1990-91 – a figure unacceptable to international lending institutions and one that puts Egypt among the world's "top five" transgressors.

Dr Atef Sedki, the prime minister, announcing details of the budget for the new financial year, said the government planned to reduce the deficit to 3.5 per cent of GDP by 1994-95. That would be a very significant achievement.

The World Bank, which plans to provide about $300m in structural adjustment assistance, is demanding further liberalisation of the public sector, leading to a genuine process of privatisation in place of the fiddling at the margins that has been going on for several years.

The Bank is seeking the removal of price controls to give public sector enterprises more flexibility. It wants the complete de-regulation of the agriculture sector where the planting and marketing of cotton, rice and sugar are still subject to government controls.

No-one in Egypt pretends the next 18-24 months are going to be easy. Indeed, there is a good deal of worry about the impact of price rises and unemployment in a country where the Gulf crisis has hit hardest the lower income groups dependent on remittances from relatives previously working in Iraq and in Kuwait.

According to one estimate, some 5m Egyptian "dependents" may have suffered as a consequence of the drying up of family subventions from abroad. A western economist estimates that real per capita household income dropped 18 per cent in 1990-91, with wage increases lagging far behind inflation.

The IMF expects prices to rise about 28 per cent in the coming fiscal year, after which the rate of increase should tail off fairly rapidly. The big rise occurred in the December-March period when, on an annualised basis, prices jumped by about 40 per cent. Western economists discount the possibility of "hyper-inflation."

Another worry for the authorities is that unemployment, unofficially estimated at about 15 per cent, will become a more critical problem. Continuing negative growth in the official economy holds out little joy for those seeking jobs.

Egypt's large informal economy, which accounts for about 30 per cent of economic activity, provides partial compensation for declines in the formal sector, but its absorptive capacity is limited in part by linkages to the rest of the economy.

Egypt's balance of payments for 1990-91 was weakened due to the impact of the Gulf crisis. Foreign exchanges losses from the sharp drop in tourism revenues and the downturn in remittances are thought to have totalled about $2.5bn. Set against this were increased earnings from oil due to higher prices plus aid transfers mainly from the Gulf as a "reward" for Egypt's stand against Iraq.

The authorities face a big test in implementing and administering the new economic reforms. Government officials freely admit that because of a shortage of skilled staff they are hard-pressed to keep up with all the changes, let alone engage in the fine-tuning that might be necessary.

"These are structural problems that the IMF and World Bank don't see," said one government adviser ruefully. "The system has stagnated for the last 20 years. For the first time, so many measures are being implemented on so many fronts."

Officials are sanguine, but by no means overconfident, about the government's ability to maintain social cohesion at this delicate stage. "If we play our cards right in terms of keeping people informed of what we're doing we probably will succeed," said one official.

But, as a western economist points out, the danger for Egypt is that it will get inflation down and stop the haemorrhage to its foreign reserves, but it will end up with a stagnant economy.

That in turn will depend to an extent on judgments made internally and externally by investors who are now waiting to see if the government keeps its nerve and is indeed genuinely committed to reform.

POLITICS

Mubarak's popularity tested

SURVEYING THE internal scene as he enters his 10th and potentially most taxing year in power, President Hosni Mubarak has reason to feel satisfied. Although controversial, Egypt's role on the winning side of the Gulf war boosted his popularity when grumbling over the stagnant economy had begun to mount. His political foes remain in disarray, divided by the war.

In coming months, as IMF-prescribed reforms begin to bite, Mr Mubarak will need to draw down his political reserves. Rising unemployment and inflation could provide the focus which opposition forces have lacked.

Aware of the potential for unrest, the government has shown no inclination to balance economic liberalisation with a relaxation of its political grip. A recent three-year extension of emergency powers, coupled with a Cabinet change that left the regime's tenured figureheads in place, provided a sign of determination to keep the lid on.

In force since the assassination by Islamic radicals of Mr Mubarak's predecessor Anwar al Sadat in 1981, the emergency powers contribute to an impressive arsenal of government controls. Under Egypt's 1971 constitution the president appoints not only ministers but also provincial governors, newspaper editors, university presidents and other senior officials. Government ministries decide the content of radio and TV broadcasts, school curricula and most mosque sermons.

The government has long realised persuasion is more effective than coercion

Mr Mubarak's National Democratic party, which like Mexico's Institutional Revolutionary party, runs a vast patronage network, holds a crushing 85 per cent parliamentary majority that allows it to legislate at will. The state's overwhelming dominance has kept the political position weak in spite of a decade-long trend towards pluralism. A dozen legal parties run the gamut from greens to fundamentalists to socialist followers of Gamal Abdul Nasser, the first and most radical of Egypt's presidents. Even the still-outlawed Muslim Brotherhood operates freely behind the thin veil of an alliance with the Labour party.

But the opposition's long-standing inability to deliver more than rhetoric has tested the patience of a public which is already renowned for its apathy. Calculating wrongly that the Gulf crisis had shaken the regime, the major parties boycotted parliamentary elections in December 1990. Unchallenged, the government was able to run the cleanest poll in memory. The curious result was that a small leftist party emerged as the main voice of parliamentary opposition. The conservative Wafd party and the Muslim Brotherhood, long the opposition's heavyweights, were out.

Exclusion from parliament has left the mainstream opposition with no voice but the noisy party press, considered the freest in the Arab world (excepting Lebanon). But a small readership and low journalistic standards have limited its credibility.

Muslim fundamentalists do, however, control most elected positions in professional and student organisations. The Muslim Brothers contend that this reflects the real popular will, not an unreasonable claim given opinion polls showing a majority of Egyptians in favour of fully applied Islamic law. (Egypt's law has long been theoretically based on Sharia).

Yet despite an ongoing religious revival and widespread sympathy for the Brotherhood's aims, fundamentalists have failed to galvanise public action. In contrast with Algeria, no charismatic demagogue has emerged in Egypt, nor is one likely to be allowed to. The Brotherhood's platform remains hazy: apply "true" Islam and all problems will solve themselves. The Gulf crisis confused supporters as anti-western xenophobes clashed with Islamic moderates and Saudi-backed conservatives. Meanwhile, the state has waged a successful campaign of co-optation, increasing Islam's media air time and casting military intervention in the Gulf as a defence of Islamic holy places.

Political Islam's impotence continues to frustrate radicals fuelling urban guerrilla groups like the Islamic Leagues. Loosely organised in cells throughout the country, the leagues have engaged in sporadic clashes with security forces over the past decade, and have been held responsible for attacks on property owned by Egypt's 6m Coptic Christian minority.

In October 1990 the Speaker of Egypt's parliament and five bodyguards were ambushed and killed in central Cairo. It later transpired that the unfortunate politician had been mistaken for the tough interior minister, whom the Islamic Leagues accused of ordering the death of a prominent league figure, gunned down on a Cairo street a month earlier. The assassination prompted a wave of arrests and a series of bloody shoot-outs between police and terrorist suspects.

The overwhelming dominance of the state kept the political position weak

It is unclear, however, whether the notable decline in fundamentalist violence has been a result of police action. Human rights organisations, increasingly active in Egypt, have charged security forces with routine brutality including torture. But by regional standards, most observers concur, abuses are minimal.

Ultimately, the Mubarak government has long realised, persuasion is more effective than coercion. During the Gulf crisis Mr Mubarak gained points by frankly explaining his decisions in a series of televised speeches. Similarly, he has tried to soothe anxieties over economic reform by bluntly describing the extent of Egypt's difficulties and the urgent need to address them.

After the Nasser era's legacy of a highly controlled society, Mr Mubarak can justly claim to have overseen a shift towards greater openness. In a clear sign of this, cartoonists now routinely target the most senior officials – excepting the president himself. Another, sadder sign is the decline of the cruel political jokes that were long the Egyptians' sole outlet for revenge against a monolithic state. An age of plain speaking has seemingly given subversive humour the kiss of death.

Max Rodenberg

THE PUBLIC SECTOR

A layer of overseers

MR Mohammed Abdel Wahab has spent much of his time as industry minister since 1984 defending the poor performance of many of the approximately 150 public sector companies and joint ventures under his control.

Year after year, he produces figures to try to persuade sceptics that inefficient state corporations are doing better under his supervision, and that the list of loss-making enterprises is becoming shorter.

Now, Mr Wahab is about to gain a respite from difficult questions about the sluggish state sector. A new Public Sector Investment law has been formulated that would create a separate ministry to preside over a rationalisation of 550 state-owned enterprises, including the 150 attached to the industry department.

Enterprises range from those of the textile sector, easily the largest employer of labour in Egypt, to state-owned companies engaged in the production of consumer items such as chocolate and beer.

Banks and insurance companies, and enterprises such as EgyptAir, the national carrier, will not come within the purview of the new law initially as these institutions operate under their own specific laws.

Depending on the quality and commitment of the minister responsible for supervising the liberalisation of state enterprises, the new law could prove one of the more adventurous measures undertaken among the latest reforms. It might be one of the most controversial.

The basic thrust of the new law will be to create a series of holding companies to oversee the activities of various groupings of state enterprises operating under the revised public sector law. These holding companies should have considerable freedom to reorganise public sector businesses along more efficient and, it is hoped, profitable lines.

The holding companies will be empowered to sell off assets, close loss-making divisions, raise additional capital, trade in the financial markets, re-order priorities and inject new talent into boards of state corporations in place of management representatives from the companies themselves (workers' representation is protected by Egypt's Nasser-era constitution).

One of the most acute drawbacks of the existing system is that boards, comprising more or less equal numbers of management and workers' representatives, tend to be consumed by petty squabbles about pay and conditions, and too little attention is paid to developing new strategies. Many poorly financed state companies, labouring under rigid price controls, have become moribund institutions, bereft of new ideas and starved of fresh investment.

The new "holding company system" has its critics among Egyptians who ask whether it is necessary to create yet another layer of bureaucracy over the unwieldy public sector which accounts for some 70 per cent of gross fixed investment, 80 per cent of foreign trade and 90 per cent of banking and insurance.

Prominent among these critics is Mr Said el Naggar, Cairo University emeritus professor and former World Bank executive director. "This kind of idea has been tried in many countries," he says. "Why should it work in Egypt?"

Mr Abdel Wahab answers critics by saying that the system being implemented in Egypt has worked successfully to enliven state institutions in Italy, Austria and France.

Sceptics question whether in a developing country like Egypt it is advisable to vest too much power in the hands of the minister charged with responsibility for "cleaning up" the public sector. The opportunities for patronage in appointments to the boards of holding companies and other forms of skulduggery would seem to be almost unlimited, especially if an adventurous divestiture process were to get under way.

Mr Wahab says that much will depend on the quality of the new minister, but in any case the task is so big that he believes whoever fills the job will be run off his feet. If the government genuinely intends to oblige state institutions to operate according to more rigorous commercial standards, then the minister will have his work cut out saving a number of loss-making companies.

The new law, he says, is designed to merge over time with Law 159 which governs the activities of much of the private sector so that Egypt will end up with one corporate law and also one set of rules governing labour relations.

The World Bank, through its structural assistance programme, has been encouraging an adventurous approach to the restructuring of public sector institutions. It will not be alone in monitoring carefully the operations of the new law which will carry the debt-burdened and highly inefficient state sector into previously uncharted waters; and if the process is pursued it is certain to cause more than its share of controversy, not to mention the prospect of redundancies.

Tony Walker

Tough reforms: 'no other way'

President Hosni Mubarak of Egypt will complete 10 years in office this November. Under his rule, Egypt has moved slowly and uncertainly towards a process of economic liberalisation. However, recently reforms *have speeded up with the signing of a new* IMF agreement.

Roger Matthews **and** Tony Walker **talked to Mr Mubarak in Cairo for this survey**

QUESTION: You once referred to the *IMF* as the "international misery fund". Have you changed your mind and how committed are you to the new reform programme?

ANSWER: We are committed and we are going to fulfill our commitments, although it will be very hard. But the people are going to accept it because there is no other way.

Q: But the reforms will mean significant hardship for ordinary people?

A: Hardship for people is *everywhere, even in the UK.* Every country has difficulties and there are many people suffering. We have to find ways to improve the standard of living as much as possible.

Q: Both Egyptians and foreigners are sceptical about your ability to sustain the reforms. They say that at the first hint of trouble you will drop the reforms.

A: People talk! When Sadat was elected they said he would only stay two or three months. When I was elected,they said I would not stay long. These are estimations of people who are not studying the situation deeply. We are going ahead with the reforms. We will *never hesitate and whenever* anything needs to be explained to the people I'm ready to go personally on television to explain it to them.

Q: What persuaded you to accelerate the pace of reform after moving very slowly?

A: I'm convinced with the pace. In the past I went slow ... until the people were educated that there should be reforms. Then I could start. I told them that if we stayed like this we would have to make very tough reforms in the future. There is no other way.

Q: Is it your intention to allow the private sector to become the dominant factor in the economy?

A: The private sector is much richer than the country itself. We would like to use their money which has been under the ground; to create jobs for people, to build factories and to increase production.

Q: What do you say to foreign *investors and private sector* businessmen who complain about obstacles created by an unresponsive bureaucracy?

A: We have removed hills of bureaucracy in the past 10 years. We need investors to come here so we are removing *so many obstacles. We did a lot* in the last 10 years to encourage investors.

Q: What are you most proud of as you come up to 10 years in office?

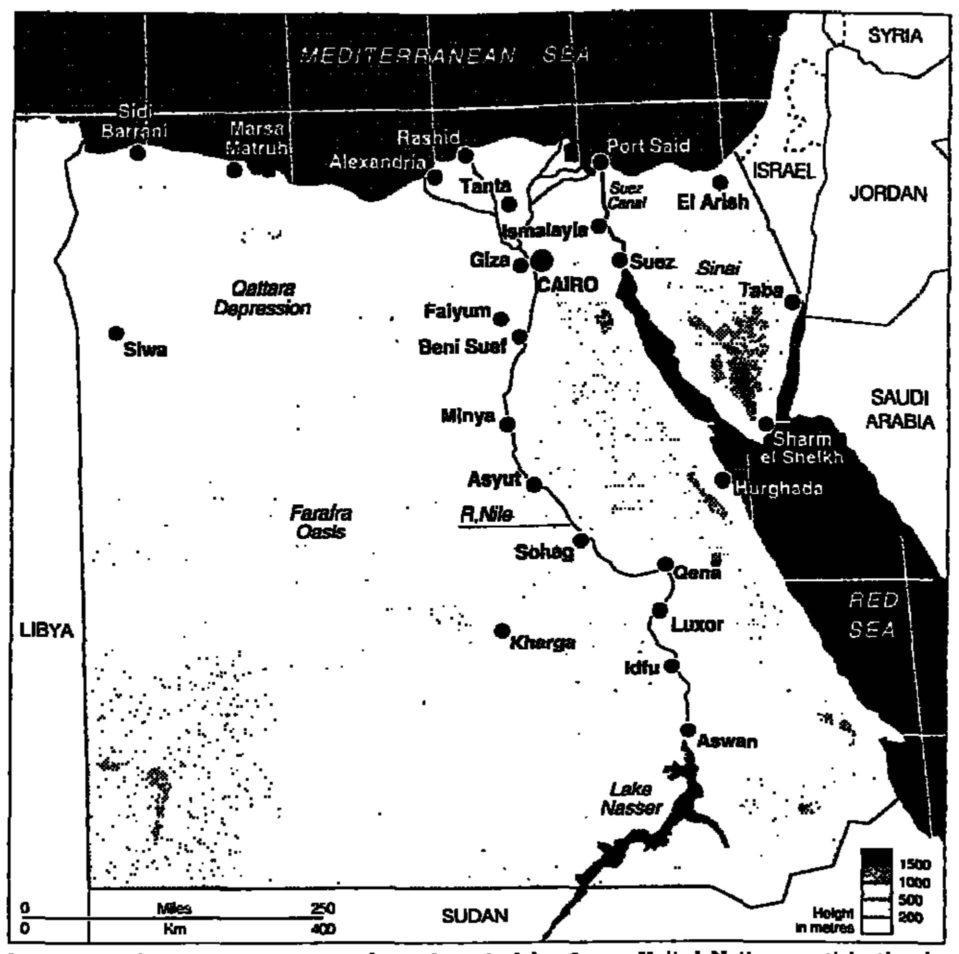
A: When I took office we had no infrastructure. We started building infrastructure from scratch: sewerage, water, new cities in the desert, all kinds of communications, land reclamation and, of course, democracy. I have never prevented *any* newspaper article from being published, which is something which never happened before.

Q: What is your vision for Egypt in the year 2000?

A: I hope there will be a much better economic situation. We are *suffering* now because of the policies of the past 50 years that were not in the right direction, founded upon socialism, upon the Soviet Union and a big public sector which is a no-man's land. So I hope by the year 2000 the private *sector will be much more and* the public sector will be limited to a few things the private sector cannot do.

Q: Will it require President Mubarak at the wheel to guide the country to the end of the century?

A: I still say two terms are enough [Mr Mubarak's second six-year term expires in 1993] ... I hope I would end after my second term and just live freely. This is my hope.



Roger Matthews on Cairo's role in the Middle East peace process

Leader of the Arab nations again

THE return this year of the Arab League to its headquarters in Cairo is at least a partial vindication of President Anwar Sadat's highly individualistic approach to the conflicts of the Middle East and also of Cairo's long-held assumption that other Arab nations would suffer more from a break in relations than would Egypt itself.

The election of Mr Esmat Abdel Meguid, Egypt's former foreign minister, as the new secretary-general of the League lends further weight to the argument that Cairo has again become the undisputed political leader of the Arab nations. Few sceptics would have believed that possible a decade ago. It used to be said that the one sure thing amid a sea of Arab unpredictability was that no Arab leader would accept the return of the Arab League to Cairo while there was an Israeli embassy in that city.

It would be encouraging to conclude that this apparent *volte-face* had come about as a result of a more realistic assessment of policy options in the region. Unfortunately, it has far more to do with the disasters inflicted by President Saddam Hussein of Iraq.

In the late 1970s, Baghdad orchestrated the Arab campaign to punish Egypt for daring to break ranks by signing a separate treaty with Israel. It was subsequently Baghdad which led the way back to Cairo as it became bogged down in its interminable self-inflicted war with Iran. So when Mr Saddam's international political and military ambitions were laid to rest by the Allied forces in Kuwait last February, it became inevitable that the ebb back to Egypt would become a flood.

There is little indication so far that it is going to be a very purposeful flood. Iraq's invasion of Kuwait in August, the threat then posed to Saudi Arabia and to the rest of the Gulf, and the important role played by Egypt and Syria in supplying troops and wider political support for the Allied armies, does not appear to have made that much difference to entrenched Gulf attitudes.

It used to be said that the Arab League would not return while an Israeli embassy was in the city

Kuwaitis, who suffered most among Saddam's international opponents, are said by some Egyptians to be demonstrating little more than verbal gratitude to those fellow Arabs involved in securing their liberation. The conflict has done little to forge a new sense of unity and purpose.

The clearest indication came with President Mubarak's statement that Egyptian troops would progressively be withdrawn from Kuwait and Saudi Arabia unless there was a clearly expressed and agreed role for them. It is an issue which will be further explored, but there is no doubt that Egypt has been disappointed by the lack of a sense of urgency from the other side. The impression has been gained in Cairo that the al-Sabah family in Kuwait would much prefer American troops to stay rather than permit a more permanent role in Kuwait's defence to be carried out by other Arab forces.

However, there are indications that the ruling family has found it impossible to realise this aim, and it will be surprising if an agreement has not been concluded in the next two months which accepts the need for Egyptian and Syrian units in Kuwait.

Even then, it will not be a decision which gathers much public support among the majority of Egyptians. As a nation which has suffered heavily from wars in the past 50 years, Egyptians were unimpressed by the behaviour and attitudes of the many Kuwaitis who sat out the occupation in Cairo's five-star hotels. Still less are they happy about what has happened in Kuwait since the liberation.

This has served further to reduce the likelihood that the eight-nation grouping which emerged during the Gulf crisis – involving the six members of the Gulf Co-operation Council (Saudi Arabia, Kuwait, Bahrain, Qatar, United Arab Emirates and Oman) together with Egypt and Syria – will co-operate sufficiently closely to emerge as the dominant influence within the Arab League.

It will be surprising if an agreement does not accept the need for Egyptian units in Kuwait

Of greater immediate significance will be the bilateral relationship developing between Egypt and Syria. Whereas Egypt and the six members of the GCC are firmly under the umbrella of the US, Syria remains stubbornly outside. After the defeat of Saddam Hussein, Syria is the only Arab country which could be seen as posing a significant military threat to Israel.

Within the foreign ministry in Cairo there is a ready understanding of the reasons for Syria's stance over a settlement to the Palestinian issue. The issues raised by Syria are similar to the ones expounded by many Egyptian officials during the negotiations leading up to the 1979 Camp David accords with Israel. The repetition today of such views underlines just how little progress has been made in the past decade of the Arab-Israel conflict, something which again has been largely confirmed by Mr James Baker, the US secretary of state, during his recent visits to the region.

President Mubarak said in a recent interview that the Bush administration was about the best he could remember and he believed that it was committed to finding a negotiated settlement to the Palestinian issue. But, at the same time, Mr Mubarak is becoming even more despairing of Mr Yitzhak Shamir, Israel's prime minister, than was President Sadat of the then premier of Israel, Mr Menahem Begin.

Although Egypt has stuck largely by the letter of the peace treaty with Israel, there is no prospect of anything like friendly relations developing between the two countries while the Shamir government refuses to endorse the principle of withdrawing from occupied Arab territory in return for a comprehensive peace treaty. Each new Jewish settlement in the occupied territories is taken in Cairo as further confirmation that Israel has no interest in a just solution to the Palestinian crisis.

Insofar as the peace treaty with Israel represents the cornerstone of its relationship with the US, Egypt is left without room to manoeuvre. Aid flows of about $2bn a year, recent forgiveness of military debt and the efforts Washington has made to persuade other creditors to be generous with Cairo underline the positive side of the relationship for Egypt.

The negative aspects will appear more emphatically if the Bush administration concludes that it can see little benefit from engaging in the bruising battle with the Shamir government which would be necessary for the peace process to move forward.

Egypt is attempting to ensure during its frequent contacts with the Syrian leadership that, if the peace process does eventually collapse, it will not be the Arab side which attracts the greater blame. Accordingly, Syria is being urged to consider a number of compromises on United Nations participation in any peace conference, a proposal which Israel fiercely opposes.

But Egyptian officials appreciate the difficulties of persuading Syria, now feeling more internationally vulnerable because of the Soviet Union's preoccupation with its domestic politics, to make any concessions without some evidence of Israeli flexibility.

There is less sympathy at the moment for Mr Yassir Arafat, chairman of the Palestine Liberation Organisation, whose support for Mr Saddam Hussein will not be forgiven for some time in Cairo. Mr Arafat, and to a lesser extent King Hussein of Jordan, will be required to be seen as making a positive contribution towards the peace process before either man can expected to be asked to visit Cairo.

So far as the peace treaty is the cornerstone of its US relationship, Egypt lacks room to manoeuvre

Egypt may not have many alternatives to offer to the present peace process, but anyone who wants to be part of it will need at least to acknowledge Cairo's leading role.

Tony Walker considers reforms in the financial sector

Hard times for bankers

FOR Egypt's bankers, the past six months have brought a dizzy round of IMF and World Bank changes that, if sustained, will revolutionise the hitherto-moribund financial sector.

In January, the authorities removed ceilings on interest rates, introduced a 90-day treasury bill auction to the market, further liberalised the foreign exchange system and instituted a credit squeeze.

In a directive on May 12, the central bank instructed banks to reduce outstanding credit by June 30 to about the levels prevailing at the end of February. Most banks have in effect stopped issuing new credit: bankers admit they will have difficulty meeting the target.

The tight monetary controls, accompanying Egypt's agreement with the IMF in May, are aimed at reducing inflationary pressure at a time when cuts in subsidies on a range of items from fuel to foodstuffs have led to a surge in prices.

While bankers say they understand the need for a tight monetary policy, they question whether the arbitrary application of new credit ceilings is desirable, especially when the authorities are trying to encourage new investment.

Dr Hazem Beblawi, chairman of the Export Development Bank of Egypt – a possible candidate for an economic portfolio in cabinet changes expected later this year – says that Egypt, having accepted the IMF programme, is obliged to restrict credit. But he observes: "You can't cut credit overnight. Banks have commitments; clients have commitments. What is needed is an adjustment phase to reduce excessive demand in the market, not measures that are implemented in a hasty and indiscriminate way."

Mr Andrew Frearson, of Cairo Barclay's, worries that if the credit squeeze is sustained for too long, it will "restrict the sort of growth the government is looking for in the wake of the Gulf crisis." He says many borrowers are suffering as interest rates have risen sharply since the removal of ceilings.

The government has been obliged to inject hundreds of millions of pounds into the chronically undercapitalised "big four" public sector commercial banks – National Bank of Egypt, Banque Misr, Bank of Alexandria and Banque du Caire – which account for two-thirds of total bank assets. At the same time, the authorities have begun to impose much tougher prudential standards on the banks.

Under IMF pressure, the central bank is applying guidelines laid down by the Bank of International Settlements to assess the quality of loan portfolios and also capital ratios. From July 1, the next fiscal year, banks' assets will be re-classified according to BIS guidelines into internationally-recognised categories. Under existing banking practice in Egypt, extremely lax definitions apply to doubtful and non-performing loans.

The government's new 90-day treasury bills, described by an IMF official as the "pillar" of monetary reforms, have been effective in soaking up liquidity. Most issues have been oversubscribed.

A pleasing development for the authorities is that non-bank financial institutions such as pension funds and insurance companies – plus individual investors – have now entered the market strongly, accounting for 20 per cent of last month's successful bids.

Smaller banks, especially those with limited branch networks, are finding the going tough as liquidity continues to be squeezed and the cost of money rises.

Further reforms of Egypt's once-tangled exchange system were enacted in February. "Cartel" procedures were halted involving a small number of mostly public sector financial institutions, closely supervised by the central bank, that were responsible for fixing the exchange rate. Now, the pound is allowed to float freely, although the central bank exerts discreet pressure if rates become "too competitive."

The addition of official money changers to the system is another step towards enlivening financial markets. The IMF hopes that these institutions, under official supervision, will improve circulation of funds in the economy and put paid to the unofficial "black" market.

Mr Rafik Suweilam, first under-secretary at the Ministry of Economy and Foreign Trade, says that Egypt is determined to "integrate" its foreign exchange markets in "less than a year".

Apart from the so-called "free market" used for most transactions, the central bank maintains its own "pool" drawn from Suez Canal, cotton and petroleum receipts. This pool is used to fund strategic imports such as foodstuffs. Bankers expect profits this year to be down. But last year was satisfactory or buoyant for many institutions.

Egyptian American Bank – a joint venture between Bank of Alexandria and American Express Bank – led the joint venture banks with a 61 per cent increase in net profit to LE75.5m. Typical of buoyant results were those at Misr International Bank and The Nile Bank which reported 30 per cent profit increases and the Egypt Arab African Bank whose profits were up 35 per cent. Improved profitability was due in part to a liberalisation of bank charges and fees.

The few surviving Islamic investment companies had a difficult year. Al-Sharif Company for Economic Development ran into liquidity problems earlier this year and was late in redeeming coupons to holders of the company's paper.

Al Rayan, largest of the failed investment houses, is still subject to court-administered efforts to sell the company's assets to a group of local and international investors. The government has put pressure on Al Rayan principals, who face long jail sentences, to repatriate funds lodged abroad.

As the the process of economic reforms goes forward, the authorities are beginning to look more closely at the operations of the capital markets to revitalise the sector.

Egypt's capital markets, according to a recent study by the United States Agency for International Development, are "very underdeveloped, with a total market value of listed equities equal to only about 6 per cent of GDP." It said the "main obstacles" to the development of an equity market included statutory requirements that new shares must be issued at "par value" and that existing shareholders must be offered pre-emptive rights to new issues, and an absence of underwriting institutions.

Reform of laws governing the operations of "non-bank financial intermediaries" and a tax system that discriminates against investments in equities in favour of bank deposits was recommended.

Yet Mr Omar Sakr, regional manager of Bank of America, referring to Egypt's good fortune with a substantial part of its debt being forgiven plus fresh inflows from traditional donors and international lending institutions, says: "So much can be done here. Few other countries have had such an opportunity to start again from scratch."

POLLUTION

Nile effluence law scarcely enforced

IF YOU want to go to paradise, warns the Book of the Dead, an ancient guide to the after-life, do not pollute the Nile.

How much pity ancient Egyptians would feel for their descendants! Over 66m cubic metres of industrial effluence spews into the river each year. State subsidies on fertilisers and pesticides lead to over-use, so that chemical run-off from irrigation poisons the Nile. Year by year, less fish is caught; less is fit for human consumption.

In much of the crowded Egyptian countryside there is no means to dispose of solid waste. Plastic bags, used tyres and animal carcasses clog waterways used for washing and drinking as well as for irrigation and drainage. Impure water and endemic bilharzia has pushed the rate of kidney failure to double the world average.

"At the village level, Egyptians do not live in harmony with their environment," laments a western aid worker. Dr Mohsen Tawfiq, dean of environmental studies at Cairo's Ain Shams University explains that development has too rapidly outpaced traditional ways of life. "Population growth and economic growth have been out of balance, and this leads to abuse of resources," he says simply.

But in Egypt's case, environmental troubles typical of industrialising countries are compounded by a legacy of eastern European aid. The heaviest industries were built with little regard for environmental impact during Egypt's flirtation with socialism in the 1960s. Although much of their plant has now been replaced, state-owned factories still account for an estimated 85 per cent of industrial discharge into the Nile.

Legal limits on river pollution are routinely flouted. "The law is almost too good," says Ms Jane Tousel of the Canadian International Development agency, which has concentrated its work in Egypt on the Nile. "Very high effluent standards are supposed to be enforced by the ministry of public works. But there is no staff, no budget and no political will to support that."

But like many of Egypt's environmentalists, Dr Tawfiq insists that the Nile itself, while badly polluted, is not in real danger. Among a host of problems including water seepage into ancient monuments, air and noise pollution in Cairo, and oilspills and tourist development along the Red Sea coast, Egypt's "most pressing environmental concern", as Dr Tawfiq sees it, should be land use.

A hundred years ago there was half an acre of fertile land for every Egyptian. Today, despite three decades of strenuous and largely successful efforts to reclaim desert land, the individual share has fallen to ¼th of an acre.

Legislation has long forbidden building on prime agricultural land, but a corrupt and inefficient bureaucracy has so far been incapable of solving the problem. Of Egypt's 7.4m arable acres, up to 30,000 acres is thought to be lost to urban expansion every year.

All this may soon change. Concern for the environment has been growing by leaps and bounds. In 1989 a group of scientists founded a Green Party. For those who want to stay out of politics, the Central Association for Protection of the Environment is engaged in lobbying the government and attracting foreign aid for environmental projects.

Ten years ago, Dr Tawfiq recalls, "you could cut down any tree in Egypt. Now there may be an outcry."

Earlier this year, just such an outcry occurred. Egypt's normally sleepy parliament sharply scolded the minister of public works for using potentially harmful herbicides to control the spread of hyacinths that block canals. The practice has been stopped.

Environmentalists have chalked up other successes. Filters have been installed in cement plants near Cairo that used to blow a tenth of their output into the air. Nile-side sugar refineries have converted some waste to productive use in making bricks. Cairo buses now direct their exhausts upwards rather than into the faces of passers-by.

The government itself is stirring into action. The much criticised head of the Egyptian Environmental Affairs Agency, once a director of chemical warfare research, has been replaced. National parks and wildlife sanctuaries have been established and controls placed on the shooting of migratory birds.

More significantly for Egypt's future, environmental issues have been introduced at all levels of the school curriculum. Dr Tawfiq has even organised seminars for Moslem preachers to familiarise them with environmental concepts in Islam. It may be that the Egyptians' afterlife is secure after all.

Max Rodenbeck

Ashley Ashwood

Farmers take cut sugar cane to the railway for transportation to a processing factory

Roger Matthews looks at the agricultural sector

Controls start biting the dust

THE STRUGGLE by Egypt's farmers to keep pace with the relentless increase in the demand for food from the country's growing population is still being lost, but by a lesser margin. The 35 per cent of the total labour force employed in agriculture works on just 3 per cent of the cultivable land area, to produce 17 per cent of gross domestic product and just 40 per cent of overall annual food requirements.

The resulting food import bill of close to $4bn a year explains in large part Egypt's persistent balance of payments woes and foreign debt. Of all the various structural changes sought in the economy, freeing the agricultural sector from official constraints remains one of the most critical.

Progress has been made and much more is promised by officials of the Ministry of Agriculture and Land Reclamation, some of whom see themselves as being in the vanguard of the economic reform movement. Certainly more has been done in the past five years to reduce controls than in any other sector of the economy. Cotton, sugar cane and part of the rice crop are still subject to official diktat, but most other crops have escaped from the previous norm of fixed production quotas, officially controlled prices and government allocation of fertilisers.

Some benefits are beginning to be felt. During 1990 agricultural output increased by about 8 per cent, largely as a result of farmers taking advantage of new incentives for wheat (Egypt has the largest per capita consumption in the world) and pushing production up by nearly a third. In the past four years wheat production has climbed from 1.8m to 4.3m tons and there are hopes for 5m tons this year. This could lead to a slightly reduced level of import requirements.

The rice crop also benefited and output last year was a record 3.1m tons. Further improvements to irrigation and to government incentives are likely to produce a crop of 3m tons or more in the current year. Officials expect another reduction in the government's procurement quota in 1991 which could leave up to 500,000 tons of rice available for export by the private sector.

Encouraging though these indicators are, there is still serious concern among Egypt's foreign advisers that narrow sectoral successes should not be viewed as a substitute for an overall agricultural policy. For instance, some 30 per cent of arable land is devoted to producing clover for animal feed. By comparison, cotton, sugar cane and rice are planted on just 25 per cent of the arable land.

The decline of the cotton industry has been one of the most depressing aspects of the Egyptian economy in the past 20 years. Egypt is one of the world's biggest producers of high quality long and extra long staple cotton which has been one of the country's consistently biggest export earners. Not only has the acreage devoted to cotton decreased steadily, but so has the proportion of the crop given over to the premium grades.

Cotton output fell sharply in the early 1970s and in the past decade dropped a further 40 per cent. Government efforts to raise production by introducing new farming practices but only very modest pricing changes have had little effect. Many farmers reportedly prefer to pay the fines imposed for not fulfilling their acreage requirement and to fund the outlay through growing more profitable cash crops.

Officials say that farmers this year will receive some 60 per cent of the international price for cotton, with the percentage increasing in the years ahead. Whether the impact will be enough to check the steady growth in cotton imports from the US needed to supply local industry must remain doubtful.

Almost as doubtful is the wisdom of allocating scarce financial resources to land reclamation programmes, especially when prime agricultural land is still being built on despite legislation which is supposed to prevent further encroachment. Yields from reclaimed land too often fail to provide a reasonable return on investment and moves towards privatising some of these projects have been welcomed by foreign agricultural experts. Most experts appear to have concluded that reclaimed land is suitable primarily for high value cash crops such as citrus fruit and certain vegetables, and even then may require several years careful management before capital outlays are recovered.

Government bureaucracy remains an additional impediment to private sector investment, both in terms of approval and on such vital issues as the provision of sufficient water. Opening an irrigation channel from an existing water supply can be an extraordinarily lengthy process and several smaller investors with inadequate funding have been frustrated in a way which larger companies, sometimes backed by Gulf funds, have been able to avoid.

Perhaps one of the more encouraging indicators for Egypt's farmers would be a reduction in the total payroll of the Ministry of Agriculture and Land Reclamation, said by some officials to exceed 450,000.

Tony Walker looks at oil prospects for foreign companies

It's tough in frontier areas

WHEN Mr Abdel Hadi Qandil, Egypt's long-serving oil supremo, was abruptly replaced as petroleum minister last month, many foreign oil company representatives breathed sighs of relief.

Mr Qandil, who had served as head until 1987 of the Egyptian General Petroleum Corporation, the state oil company, and concurrently as minister, was regarded by the industry as an unpredictable and intensely political master.

Under his stewardship, foreign oil companies were left in no doubt that their first, and it seemed to some, sole task was to serve Egypt. Representatives claimed that the working environment proved a drag on exploration and development.

Mr Qandil's replacement, Mr Hamdi al-Banbi, the former EGPC chairman, is regarded more favourably by the industry, although Egypt is certain to continue to be a testing place in which to operate. Egypt's terms for foreign participation in the development of its oil reserves are among the world's toughest.

The exploration industry wants greater flexibility on profit sharing and cost recovery to encourage investment in "frontier" areas such as the far western desert on the Libyan border, along the Red Sea south of Hurghada and in the Sinai. It would also like a less bureaucratic environment where relatively minor problems can sometimes take days and weeks to resolve.

"I'm confident that if terms are improved, and if foreign companies are treated as partners and not as contractors, then business will look up," says the chief executive of a large foreign company with extensive exploration, production and distribution interests in Egypt.

Mr Banbi takes over as minister at a relatively propitious moment. Oil prices have remained fairly stable since the end of the Gulf conflict, and well above levels prevailing a year ago. Fresh discoveries, especially a promising find by British Gas in the Gulf of Suez, suggest that Egypt will continue to be a net

Egypt could be a net exporter beyond the year 2000

exporter well past the year 2000, confounding persistent predictions that fast-growing domestic demand would wipe out surpluses by the end of the century.

British Gas officials are coy about details of their Gulf of Suez discovery, but they concede that their consortium with Yukong of South Korea and Union Pacific Petroleum Suez of the US may well have made the largest oil find in Egypt since the early 1980s.

Reserves in the consortium's 241,000 acre North Zafarana concession in the northern Gulf of Suez may exceed 50m barrels and could range as high as 250m, which would make it a sizeable find by Egyptian standards.

British Gas announced the discovery last December, reporting a cumulative flow rate of 7,500 barrels a day. An appraisal well drilled in February about a kilometre from the discovery well showed a flow rate of 10,000 barrels.

The consortium plans a second appraisal well in July, but in the meantime has been engaged in drilling several "wildcat" holes in an effort to establish the limits of the field.

Mr Hugh Miller, chief executive of British Gas in Egypt, said that what made the North Zafarana find potentially important was that it was about 50 kilometres north of the nearest large fields in an area that geologists had tended to say was "non-prospective."

"The fact that this find is so far north could be really great for Egypt," says Mr Miller. But he adds: "The Gulf of Suez is very complex geologically, so you have to be careful here not to count your chickens."

The past year has been relatively slow for the oil sector, attributable in part, according to industry representatives, to infighting in Egypt's oil bureaucracy as Mr Qandil sought to shore up his defences against pressures that were building for his removal as oil minister.

The Gulf crisis also slowed development as parliament was in recess for most of the conflict. Some of the 14 or so exploration agreements signed in 1990 are in the process of securing parliamentary approval.

Companies are implementing some 50 concession agreements concluded in 1988-89. Dominating that bid round were Amoco, which accounts for about half Egypt's oil production through its Gupco joint venture; Shell which is developing a more aggressive presence in Egypt led by Mr Tarek Heggy, its president; Agip through its local subsidiary IEOC; and Arco.

Amoco won large concessions in north-west Egypt on the Libyan border and in the Sinai where there has been virtually no exploration. Shell is exploring onshore in the western desert and offshore in the Mediterranean west of Alexandria. IEOC has focused its activities in the Delta; Arco has two blocks in the western desert adjacent to Amoco's near the Libyan border.

As the Gulf of Suez, which accounts for 90 per cent of Egypt's production of some 870,000 b/d, continues to mature, more emphasis is being given to exploring "frontier" areas such as those on the Libyan border.

The industry pinpoints four such regions: Egypt's far western desert; the Sinai; Upper Egypt towards Aswan and the High Dam; and offshore areas south of Hurghada in the Red Sea. British Petroleum is one of the companies striking out into new "frontier" zones. It plans to explore across a wide area from Luxor in the north to Aswan in the south.

A sign of "buyer resistance" among oil companies to tough exploration and development terms in Egypt was the disappointing response last year to EGPC's offerings in the eastern Nile Delta (offshore) and North Sinai (onshore and offshore). There were only three applicants for the six areas offered in the first of two bid rounds.

Agreements between EGPC and foreign companies, with small variations, follow a well-established formula that provides for cost recovery of exploration and development expenditures at a rate of 20 per cent annually, involving the allocation of between 20 and 40 per cent of production for this purpose. Oil remaining after cost recovery and operating costs (profit oil) is shared on an 80-20 per cent basis.

Shell's Mr Heggy argues that for "frontier" areas these terms are much too tough. He points out that the rules of the game were established in the early 1980s when oil prices were "US$35 and above.

"I believe that EGPC has to allow longer exploration periods," he says. "It must permit foreign companies to share excess cost recovery crude oil (at present all proceeds above agreed cost recovery share go to EGPC); and it should make profit oil terms more favourable for foreign companies, especially in frontier areas."

While foreign companies grumble about concession terms and problems with Egypt's bureaucracy, representatives have been encouraged by the IMF-World Bank reforms and the promise of the further liberalisation of the private sector.

Mr David Work, chief executive of Amoco, believes that one of the effects of liberalisation will be to improve the oil service sector by introducing a greater degree of competition. Foreign oil companies are also benefiting significantly from exchange rate reforms which brought the official dollar/pound rate close to that of the open market.

Previously, oil companies were obliged to fund their local activities at penal cost because of the wide gap between the low central bank rate and the free market. As an oil executive said: "This has brought about measurable savings. We are now getting a lot more pounds for our dollars."

Another positive development in the past year, as far as foreign companies are concerned, is that EGPC has become much more market-sensitive in its pricing policies. In the fourth quarter of 1990, EGPC moved to daily pricing in place of setting prices on a bi-monthly basis.

Inevitably, in a volatile market disputes would arise between foreign companies and EGPC over the rate at which to calculate the share of profit and cost recovery oil. At EGPC, Mr Banbi was credited with introducing a greater degree of predictability in pricing arrangements. That is not the least of the reasons why his elevation to oil minister has been broadly welcomed.

Banbi seeks more exploration

MR Hamdi al-Banbi, Egypt's new oil minister, sees his main task as encouraging much increased exploration activity in Egypt, and also to push ahead firmly with plans to exploit the country's gas reserves, writes Tony Walker.

In a clear pitch for additional investment by foreign companies in Egypt, Mr Banbi, who was appointed minister in May, says: "I would like to see the pace of exploration increase significantly."

But in response to criticism by foreign oil company representatives that Egypt's terms were proving a disincentive, Mr Banbi replies: "They say it is too tough. In our opinion, it is fair. If the terms are tough and you accept them, you get in return stability, honesty and our commitment to our agreements."

The new minister adds, however, that ultimately each new exploration and production agreement is a matter for negotiation. "We look at what the constraints are and at the end of the day we agree," he declares.

In line with his desire to foster enhanced exploration and production activity, Mr Banbi's priorities are:

'We would definitely let production go up' says the minister

■ to extend Egypt's proven gas reserves from the present figure of 11-12 trillion cubic feet to a target of 27 tcf to assure adequate domestic supplies, thus freeing additional liquid hydrocarbons for export. (A new "gas clause" in exploration and production agreements has provided an incentive where none existed before to oil companies to search for and exploit gas deposits).

■ to attract fresh investment to the downstream petrochemical sector in an effort to correct Egypt's lack of self-sufficiency in certain petrochemical products.

■ to encourage private sector investment in distribution companies, with the strong possibility that state-run companies would be put on the market.

Mr Banbi says he is anxious to press ahead with new bid rounds for "frontier" areas such as the Red Sea south of Hurghada. He expects to offer substantial acreage by the end of the year in this area, which he describes as having "good potential".

The new minister has been much encouraged by British Gas's recent Gulf of Suez discovery. He says that this has led to strong renewed interest in open acreage surrounding the new North Zafarana find.

Mr Banbi says Egypt, with proven oil and gas reserves of 6bn barrels, plans to hold production at the present level of 870,000 b/d for the time being. "For the very near future we do not expect production to increase," he says, "but if people put more effort into exploration and development we would definitely let production go up."

POPULATION

Beat the birth clock

ONE OF the most popular features on Egyptian television is *"Dr Karima" who dispenses* birth control advice.

Her message seems to be getting through. According to health workers, women all over Egypt are visiting clinics and asking for "Dr Karima."

At the same time official statistics indicate that the birth rate is dropping fairly quickly towards the target set by the government of 21 per thousand. In 1985 the rate of increase was 30.4 per thousand. By 1989, the latest figure available, it had dropped to 25.2 per thousand, although foreign aid workers express some scepticism about the latter statistics.

But there is *no doubt that a* combination of a better-funded and organised education and a publicity campaign at grass-roots level plus increased economic pressures have persuaded Egyptians to curtail the size of their families, now down to an average of about 4.3 children compared with *seven children 20 years ago.*

But the fact remains that with improved health care mortality rates are falling rapidly and Egypt, whose population now stands at 55m, gains an additional 1m mouths to feed every eight months. The population is projected to reach 70m by the turn of the century, more than doubling numbers at the time of the 1976 census when the population was 33m.

In its efforts to alert people to the dangers of the population explosion, the government has tried a number of creative approaches. Some have worked, but others have been *ridiculed in a country where* humour is very much part of everyday life. A few years ago every newscast on state-owned television showed a "population clock" that would tick off new births. Yet this was dropped after a few months when the ticking clock became something of a joke. A newspaper cartoonist drew the clock itself as having become pregnant.

The "Dr Karima" campaign relies on everyday situations involving contacts with her "patients" to get the message across that it is better for all concerned for families to be smaller. For example, the campaign puts emphasis on the need to give mothers more time to recover from childbirth *for the sake of their health and* that of their babies.

Women resist pressure to limit the size of their families for various reasons, including religious beliefs, tradition and ignorance. A 1980 survey among women of childbearing age found that 53 per cent did not want any more children, but only 24 per cent of those women were practising contraception.

Support for the government

Thirty per cent of marriages involve girls under 16

has come recently from the mufti (the highest religious authority in Egypt) and the religious institution of Al Azhar. Both endorsed family planning and said that it did not contradict Koranic injunctions, yet hardline Moslems and independent preachers still regard contraception as sinful.

Militants struck only last month when they stabbed to death two brothers who were engaged in promoting birth control in their home area near the upper Egyptian town of Qena. The Ministry of Interior blamed the stabbings on the extremist Al Jihad organisation.

Publications controlled by the religious right are also responsible for disinformation aimed at undermining the birth control programme. In 1988 the Islamic Al Nour newspaper attacked a family planning programme sponsored by the United States Agency for International Development (USAID), claiming that it was a scheme mounted by American Jews to limit the number of Arabs.

Local preachers and imams (religious teachers) have constituted another obstacle to the family planning programme. *Health workers cite the recent* case of the woman who returned to the clinic two days after having an inter-uterine device (IUD) fitted to ask for it to be removed. The reason, as she explained, was that the imam of the local mosque had told everyone that family planning was forbidden by Islam. The wife said she risked being "thrown into the street" by her husband if she did not have the IUD removed immediately.

The population problem surfaces constantly in Egypt, permeating discussion about unemployment, food shortages, subsidies, budget deficits, bread queues and price rises. President Mubarak ceaselessly addresses the issue. "We must all work together," he says. "One hand cannot clap alone ... people must organise themselves."

The issue of family size became a hot one recently when an opposition newspaper reported on its front page the case of an "Egyptian citizen" with a large family who had committed suicide after failing to make ends meet due to the recent IMF-inspired price rises. Mr Salah Muntasser, editor of the semi-official October magazine, asked why should a man with limited income have seven children?

This man would not have resorted to suicide, Mr Muntasser concluded, if he had had only two or three mouths to feed. "The issue is not the case of an individual citizen, but it is the case of a whole people," he commented while describing the burdens on the country brought about by the massive increase in the number of Egyptians in the past two decades.

Population experts believe that family planning efforts should be backed by attempts to enforce laws prohibiting marriage of girls under 16, for example. Thirty per cent of marriages involve under-age girls. Effort, these experts say, should also be directed at applying the law prohibiting children under 15 working. If this regulation was strictly applied, families, especially in rural areas, who regard children as a source of income, might be encouraged to see things differently.

Egyptian newspapers, in their efforts to draw attention to *the "population bomb",* sometimes seem to try to outdo each other in dire warnings about the dangers. "By the turn of the century the day will come," commented one Egyptian journalist recently, "when Egyptians will begin to devour each other."

Shahira Idris

POWER

Higher prices bring an air of frugality

THE EVIDENCE is anecdotal, but it seems that higher electricity prices are at last obliging Egyptian users to be more frugal. Guests at Egyptian hotels report that staff now turn off air conditioners during the day when rooms are unoccupied.

In the past, extremely low electricity tariffs by international standards for individuals and enterprises meant that very little attention was paid to conservation.

Now that Egypt has embarked on a concerted programme of IMF and World Bank-inspired reforms, including sharp increases in electricity prices, more care is being taken with energy use.

Under pressure from international lending institutions Egypt has pledged to bring electricity prices up to the so-called "long-range marginal cost" (LRMC) – the internationally recognised standard – by June 1995.

According to Mr Said Issa, chairman of the Egyptian Electricity Authority (EEA), the "weighted average" of electricity costs rose from 47 per cent of the LRMC in 1990 to 59 per cent this year, and will reach 70 per cent in 1992.

These steps are leading to dramatic price rises for public sector companies which had long benefited from electricity subsidies that cost Egypt the equivalent of about US$2bn a year.

While Egypt is beginning to charge large users such as the Nag Hammadi aluminium smelter in Upper Egypt a more realistic price for energy, it is continuing to subsidise the cost of the electricity for the poor.

It has established 10 categories for domestic consumers, beginning with subsidised rates for those who use around 100 kilowatts a month. This accounts for about 65-70 per cent of people. The scale rises abruptly for bigger domestic consumers.

If Egypt keeps its nerve and continues to pursue energy price reform, then the day may not be too far distant when the EEA is in a position to self-finance improvements to the system, instead of relying so heavily on grants and concessions from aid donors and international lending institutions.

Price increases have been accompanied by impressive progress towards creating a generating reserve of 15 to 20 per cent of peak demand. With this "strategic reserve" in hand, the EEA, while continuing to add to capacity, is also giving more attention to efficiency and performance.

It has achieved marked success in this already, reducing the fuel consumption of its plants from about 346 grammes of fuel per kilowatt hour to an average of 260 grammes/kWh.

This efficiency level has been achieved in part by the rehabilitation of older power plants, some of which were on the verge of being decommissioned.

The EEA has also made progress in reducing transmission losses through the installation of "compensators". According to Mr Issa, losses have come down from 19 to 14 per cent, against international standards of 10-11 per cent.

Other conservation measures aimed at rationalising investment in the power sector include much improved management of electricity distribution to keep bulk loads out of periods of peak demand.

A foreign expert who has spent many years advising the EEA, says Egypt's power sector is "probably in better shape than it has ever been with much of its equipment modern and efficient, a good transmission system and with a reserve that allows plenty of scope for maintenance."

In the past 10 years, in something of a crash programme Egypt has added 7,000 megawatts to its installed capacity, taking the total to 10,938MW. It plans to add another 6,000MW by the end of this century, including another 1,000MW of fuel-conserving combined cycle power generation to add to the 1,500 already installed.

Egypt's electricity output is expected to grow at about 6 per cent a year till the end of the century, compared with growth in peak demand of some 5 per cent. This is a slower rate of growth than in the past decade when annual increases ranged up to 12-16 per cent.

In the past year Egypt completed two large projects. It added 330MW to capacity at the Abu Qir power station on the coast, west of Alexandria and 330MW at Damanhour in the Delta.

Plans for the next 12 months include the commissioning of a 400MW combined cycle plant at Damietta on the coast east of Alexandria and the rehabilitation of an old Russian plant at Suez that will add 185MW to capacity.

If there is a cloud on the horizon for the Egyptian power sector, it is that waters in the Aswan High Dam have again fallen close to the critical 165 metres above sea level point where it is likely that by the end of next month generating capacity of the giant turbines will be affected.

This recalls the problems of the mid to late-1980s when persistent drought in Ethiopia, the Nile's main catchment area, forced a drastic reduction in power generated by the High Dam turbines, but Egypt with its additional capacity is now in a much better position to cope with reduced High Dam output.

In its efforts to make Egypt's power system more efficient and less threatening environmentally, the EEA has converted all its plants to dual gas and oil-fired. But relatively slow progress in developing Egypt's gas grid means that several plants are not yet receiving gas.

One of the EEA's aims is to reduce oil usage, leaving more to be exported. In 1990 the power sector used 8.3m tons of oil or 16 per cent of total production.

In its quest for greater efficiency, the EEA is also decentralising its management, splitting up its vast Upper Egypt and Delta zones into two. "They're doing everything right," says the foreign power expert.

"They know where they want to go. They have good plans and a dedicated staff."

Tony Walker

European energy link

MR Maher Abaza, Egypt's minister for electricity, could never be accused of thinking small. His dream is to link Egypt with Europe's power grid in two ambitious schemes, one of which is under way.

Early this month, Egypt and Syria signed a protocol that would advance Egypt's plans to join its power grid with that of Jordan, Syria and Turkey, eventually linking up with the unified power system of Europe.

His other dream is to tap into Zaire's vast hydro-power reserves of some 50,000 megawatts in a triangular grid that would join Zaire with Egypt and Morocco, to be linked in turn with Europe – a scheme that he estimates would take 20-25 years.

In spite of the sceptics, he has no doubt that the Zairean proposal is feasible. He says he has persuaded the African Development Bank to put up $10m for a pre-feasibility study.

"It would be an opportunity for Africa to transmit power to Europe that it could not itself utilise for the next 200 years," he says. "Europe could use this source instead of building nuclear facilities or power stations that cause pollution."

For the time being, Mr Abaza is devoting most attention to bringing about the first leg of his ambitious programme. Under a $150m loan from the Arab Fund preliminary work is proceeding on establishing a link under the Gulf of Aqaba with Jordan. He hopes that a Cairo-Amman-Damascus-Istanbul link can be effected in three to five years at a total cost of about $300m.

The minister has reached agreement with his Libyan counterpart to join Egypt's 500-kilovolt system with Libya's 400KV system. This, in turn, would be joined with Tunis to give the option of transmitting power across the Mediterranean from Tunis to Sicily and on to the Italian mainland.

Mr Abaza is interested in a less conventional form of energy and is pressing ahead, helped by a Danish grant, with investigations into the feasibility of establishing "windfarms" in the Red Sea area.

Solar energy is another power source that is engaging his attention, but Mr Abaza concedes that the relatively high costs of solar power mean that it is not yet feasible as a substitute for other forms of energy except for small-scale use.

Tony Walker

Ashley Ashwood

A falooka on the River Nile at Aswan

THE TOURISM INDUSTRY

Down but not out in Cairo

THIS YEAR can already be written off as a disaster for Egypt's tourism industry. Although there are indications that arrivals are beginning to pick up again, it is likely to be well into 1992 before anything like the growth patterns of the previous three years can be resumed for what has become Egypt's second largest earner of foreign currency.

It is a measure of the setback that officials are finding comfort in the latest figures which are said to show that the decline in arrivals compared with the previous year eased from 60 per cent in March to 43 per cent in April.

The impact of the slump in arrivals – caused by the fear that violence may spill over from the Gulf crisis – is all too visible. At Aswan, Luxor and Cairo more than 100 Nile cruise boats are lying idle. For those still working, operators have been forced to slash fares drastically in an effort to attract primarily local custom. With temperatures in Upper Egypt climbing towards the mid-40s, few ships can be expected to resume operations before the autumn and even then the weight of competition will continue to depress profitability.

Hotels have been similarly affected, with those in Upper Egypt again suffering the most drastic falls in occupancy while a few in Cairo have been cushioned by a larger than usual increase in the numbers of Gulf Arabs, especially from Kuwait. Discounting is again ubiquitous with, for example, the Winter Palace in Luxor advertising rooms for $36 a night with breakfast, and many Cairo hotels having cut their rates by half and offering a range of other incentives.

In the 10 years since it first began to develop in the wake of the peace treaty signed with Israel, Egypt's tourist industry has been plagued by such setbacks. In 1985 it was the hijacking of the cruise ship the Achille Lauro. The following year riot police in Cairo went on the rampage, seriously damaging two hotels near the Giza pyramids. The industry had scarcely begun to recover when US aircraft attacked targets in Libya, again provoking a stream of cancellations.

Given the current instability in the Middle East and the likelihood of outbreaks of violence elsewhere in the region, operators and investors in Egypt have to be prepared for further such occurrences. But they can at least take some comfort from the country's demonstrated ability to escape long-term damage and from the economic reforms under way which have already made Egypt more attractive both to investor and visitor.

Until the outbreak of the Gulf crisis officials had estimated that 1990 would have brought 3m tourists to Egypt for a total of 28m-29m nights, while earning the country close to $3bn. This compared to 1988 which had brought in 2m tourists, staying for 16m nights and spending $1bn. That reflected the surge in investment which saw the number of hotel rooms rise by over 60 per cent over the two-year period. At the beginning of 1990 there were more than 51,000 hotel rooms in Egypt, with a further 10,000 under construction.

The targets for the remainder of the decade have not been affected by the experience of the past 10 months. Officials say they expect 4m tourists by 1996 and 5m annually by the end of the century. This is based on a strategy which will increasingly seek to move away from promoting the country as one of the world's greatest archaeological sites and instead concentrate on the well-tested international formula of sun, sea and sand, all of which it has in abundance.

Officials emphasise that Egypt enjoys 1,500km of Mediterranean coastline and a further 1,200km along the Red Sea. A decision has been taken to concentrate promotional and construction efforts for the international market on the Red Sea area, while developing the Mediterranean coast more for local tourism. The reasoning is that the Red Sea climate provides for almost year-round tourism, superb coral and diving and a more distinctive image, whereas the Mediterranean has a shorter season and suffers far more from neighbouring competition.

An increase in charter flights direct to regional holiday destinations is helping to accelerate the process while often limited local infrastructure is being supplemented by those developers who aim to make their projects largely self-sufficient.

The government's commitment to liberalise the economy as part of the package of measures agreed with the IMF and World Bank should be of particular benefit to tourism. The slow and politically painful task of rolling back the public sector has already borne some fruit, with new life having been breathed back into a few of the older, grander hotels which had been historically such a vital ingredient of the Egyptian tourism scene. Egyptian nationals with large offshore dollar deposits are also beginning to invest and interest from the Gulf is well-established.

The unification of exchange rates which allowed the Egyptian pound to find its own level has helped to make the country among the very cheapest for the visitor anywhere in the Mediterranean.

No longer are tourists forced on arrival to exchange $150 at an artificially low rate and no longer do they have to spend the succeeding days beating off the attentions of aggressive black-market money changers who used to gather around most hotels.

There is plenty more that the Egyptian government can do to attract tourists, but the greater the industry's success and the financial contribution it makes to the balance of payments, the more emphatic nationally will be the impact of regional violence.

Yet, while labour remains so inexpensive, the break-even point for many hotels is at such relatively low levels of occupancy that investors continue to find the risks acceptable.

Roger Matthews

FINANCIAL TIMES
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INSIDE

Mannesmann may bid for Davy

Mannesmann, the German engineering group, emerged yesterday as one of the companies interested in Davy Corporation, the UK's largest independent engineering contractor which has effectively put itself up for sale after heavy losses on an oil rig conversion contract. It refused to comment on speculation that it was about to launch a £150m ($244m) bid for the division. Page 18

Coming to grips with the dollar

The US credit markets have firmly focused their attention on the G7 summit in London in the hope that ministers might try to hold back the rising dollar. The US currency has risen 20 per cent against most of the leading currencies in the past six months and any slowdown in its advance would be welcomed by nations trying to achieve lower interest rates. While foreign exchange intervention tends, over the medium term, to be futile, expectations of a temporary slowdown in the dollar's advance could also deter foreign buyers of US government paper. Page 20

Deadline on bid move

Etam

The UK's Takeover Panel is believed to have set a deadline of 5pm on Wednesday for Oceana Investment Corporation, the vehicle for the South African retailing family, the Lewises, to launch its long-awaited £121m ($197m) hostile takeover bid for Etam, the UK fashion chain. Page 18

New trading network proposed

The Chicago Board of Trade has proposed a local electronic trading network designed to compete in such off-exchange cash market products as swaps. Mr William O'Connor, CBOT chairman, said he aimed not only to preserve open outcry, or pit trading, but to expand member opportunities by creating a local area network of electronic trading for low-volume futures and non-futures products during the normal trading day. Page 19

Market Statistics

Companies in this issue

Sevillana to consider takeover by Endesa

By Peter Bruce in Madrid

THE TENSE battle being fought by the big Spanish public sector electricity utility, Endesa, to gain control of its private sector rival, Sevillana, is likely to come to a head this week when the Sevillana board meets to consider a formal takeover offer from Endesa.

Endesa is known to want between 30 per cent and 40 per cent of Sevillana – enough to give it management control. Any shareholding above 25 per cent would trigger a full bid. Endesa and Sevillana held talks last week aimed at finding formulas under which Sevillana would not oppose a takeover offer.

Thus this week's Sevillana board meeting – the exact day is not known – could prove a turning point. If it decides not to accept a takeover bid from Endesa, it seems likely that Endesa would go ahead with a hostile offer.

Sevillana has been under intense pressure to agree to some sort of controlling link with Endesa since April, when Spain's two largest utilities, Hidrola and Iberduero, agreed to merge. That merger came in response to government wishes that the Spanish electricity industry rationalise itself into two or three big groups, from the present eight small operators, as a means of more comfortably accommodating the big capital investment in plant needed by the industry.

The government has made it clear that it wants Endesa to lead one of the enlarged groupings and the obvious choice for a partner became Sevillana after Hidrola and Iberduero formed a defensive merger. For the past two months, however, Sevillana has been fighting a rearguard action with the support of its main shareholder, Banco Bilbao Vizcaya (BBV).

Hidrola and Iberduero believe that the longer it takes for Endesa and the government to get their way, the harder it will be for the industry to negotiate a less restrictive regulatory regime. They have been putting pressure on BBV to abandon opposition to Endesa buying into Sevillana.

Endesa bought 9.8 per cent of Sevillana two years ago but in the past week it is understood to have reached agreements with some Sevillana shareholders – Banco Santander, Banco Central, Banco Hispano Americano and Banesto – under which it will swap some Endesa stock for the shares these banks hold in Sevillana. That would take Endesa's stake in Sevillana to 20 per cent.

Brokers lose face, investors lose faith

Stefan Wagstyl explains the latest Japanese scandal

Japanese stockbrokers this week face their biggest crisis of confidence since last year's Tokyo equity market crash.

Admissions on Friday by Nomura Securities and Nikko Securities, two of Japan's Big Four brokerages, that they bought memberships in a golf club controlled by one of Japan's biggest gangster organisations, have undermined public confidence in the whole industry. The damage has been compounded by the companies' confessions that they also compensated favoured clients for trading losses.

There could be further shocks in store: over the weekend tax officials investigating the brokers' accounts told journalists they had information suggesting Daiwa Securities and Yamaichi Securities, the other two of the Big Four, also covered clients' losses. The total paid by the four companies in 1987-1991 was around Y65bn ($453m), far more than previously disclosed, officials indicated.

The revelations come as no surprise to the financial community. It is common knowledge that Tokyo brokers have compensated big clients. Daiwa and Yamaichi admitted as much last year, as have about 10 smaller brokerages.

Even the confessions of dealing with a company found to have links to a crime syndicate are scarcely revelatory. Criminals invest so much in the property and stock markets that the justice ministry this month issued a warning about gangsters investing in legitimate businesses.

Bringing these practices into the open is significant: in the short term it could drive investors away from the market, particularly private individuals who are furious at the brokers' behaviour. In the long run the affair could encourage the authorities to crack the regulatory whip harder.

To make amends, Nomura and Nikko have demoted staff and imposed pay cuts. Press reports suggest directors may resign if evidence suggests they knew what was happening.

The disclosures suggest connections between big business and big crime are closer than Japanese companies would like to admit.

In the 1980s the explosion in prices in the stock and property markets brought honest and dishonest people together in the single-minded pursuit of profit.

The scandal follows on from last year's Itoman affair, where two property speculators were accused of siphoning funds for their own use out of Itoman, an Osaka-based trading company and client of Sumitomo Bank.

Nomura and Nikko admit their affiliates bought golf club memberships together worth Y4bn from a club controlled by Mr Susumu Ishii, who retired last year as the chairman of Inagawakai, one of Japan's largest organisations of yakuza, or gangsters.

Like many other rich Japanese, Mr Ishii profited handsomely from the mid-1980s equity boom. However, as a yakuza chief he often used front companies in approaching banks and brokerages as a disguise.

According to Nikko, in early 1989 an executive of Iwama Country Club, a golf club north of Tokyo, asked Nikko to buy Y2bn worth of golf club memberships. Nikko admits that it knew Iwama was controlled by Mr Ishii. Nevertheless, it passed the request to Nikko Real Estate and Nikko Enterprise, two affiliates. Later, Nikko officials admit, another Nikko group company – Nikko Credit – lent one of Mr Ishii's companies Y20bn.

Nomura also admits it was approached by an Iwama executive at the same time. But it insists the salesman who dealt with the matter did not know Iwama's true identity. The brokerage referred the matter to Nomura Finance, a 5 per cent-owned affiliate, which bought memberships worth Y2bn through Heisei Finance, a 10 per cent-owned subsidiary of Nomura Finance. Nomura declined to comment on reports that Nomura Finance lent one of Mr Ishii's companies Y16bn.

Mr Ishii is alleged to have used the money for stock investments. Details of his activities have emerged from a finance ministry inquiry into how he acquired 24m shares in Tokyu, a top railway company.

The incidents involving compensation to clients are separate. Nomura admitted on Friday covering losses totalling Y16.5bn suffered by big corporate investors last year. Nikko admitted paying compensation totalling Y19bn, but also said that it had not choice over making the payments.

Under Japanese law, it is illegal for brokers to solicit business by promising to cover losses. The brokers are not accused of making such pledges. But in late 1989, after a similar case came to light, the ministry warned brokers not to compensate clients – even if they had not pledged to do so.

It is this rule that Nomura and Nikko on Friday admitted breaking. To the authorities' embarrassment one of the clients compensated by Nomura was a government-affiliated pension fund – the pension welfare service public corporation.

The finance ministry is considering amending the law to make it an offence to pay compensation even if there is no prior pledge. It is also considering making it illegal for brokers to act as fund managers.

Masao Yuki, of Nikko, apologises to a press conference

The incidents show that despite efforts in recent years, the finance ministry has not succeeded in creating a transparent securities market in Tokyo. Foreign investors may seize the opportunity to demand further reforms. But the real victims are the millions of individuals. Scores rang brokerages on Friday to express their anger.

The irony is that if small investors abandon the stock market it will not be the Big Four which suffer but small and medium-sized brokerages, which are more dependent on retail business.

Business leaders have heaping opprobrium on the brokers. Mr Gaishi Hiraiwa, chairman of Keidanren, the employers' federation, said Nomura and Nikko lacked a good sense of morality.

The crumb of comfort for the regulators is that the scandal was born of the heady bull market atmosphere of the late 1980s. Brokers and investors alike were making so much money it was easy to forget about the inadequacy of market checks. The end of the bull run has created a opportunity for the finance ministry to put that right.

Venables team gains control of Tottenham

By Jane Fuller in London

"FINANCE is the most important thing," said Mr Terry Venables as it was revealed that he had raised £3m ($4.9m) to buy shares and help refinance Tottenham Hotspur, the debt-laden London football club, where he has taken control alongside computer millionaire Mr Alan Sugar.

Mr Venables, who leapfrogs from football team manager to managing director of the parent company, is providing or finding half the £7.2m needed to buy shares at 75p and underwrite a rights issue.

About £750,000 will come from his own resources. He is borrowing more than £2m.

Mr Sugar, chairman of Amstrad, described Mr Venables' commitment as "gi-normous".

He will be able to dip into the £34m he raised by selling some Amstrad shares.

He and Mr Venables launched on Saturday a takeover offer for Tottenham at 75p a share, after acquiring a 36 per cent stake from Mr Irving Scholar, who resigned as football club chairman, and Mr Paul Bobroff, who left the main board. The offer values the company at £7.6m.

However, Mr Sugar made it clear that they did not want acceptances.

The camp already has effective control, including the 7.8 per cent stake of their ally Mr Tony Berry, new football club chairman.

Mr Sugar said he wanted most of the remaining £4.5m available from himself and Mr Venables to go into a rights issue, rather than the takeover.

The Tottenham Independent Supporters Association said many small shareholders, accounting for about 30 per cent of the equity, would be prepared to back a rights issue at 75p.

On a one-for-one basis this would raise £7.6m, wipe out more than half the club's debts and save about £1m a year in interest payments.

At £32,000 a week, these swallow the bulk of the club's trading profit. The new management plans to restore Tottenham's stock exchange listing, suspended at 91p.

The conclusion of the Sugar-Venables deal was delayed on Friday when Mr Robert Maxwell, the publisher, reappeared. His plans seem to have included underwriting a rights issue, or buying Mr Scholar's 26 per cent stake. Although it was claimed he had nearly £9m available, he would have had to gain a special dispensation from the Football League because of interests in other clubs.

Economics Notebook

Learning to balance the accounts again

NO SOONER does an economic problem seem on the mend than economists and officials start to worry about it again.

This appears to be the case with the global current account imbalance. Last year saw a sharp reduction in the Japanese current account surplus to $36bn from $57bn, a drop from $110bn to $99bn in the US deficit and a 30 per cent fall in the UK deficit to £13.8bn ($22.3bn). Even more spectacular has been the transformation of the German current account from a chronic surplus before unification to a deficit of DM12bn (£4bn) in the first four months of this year.

But over the past few weeks the rumblings of official discontent have been unmistakable. The Bank for International Settlements in its annual report two weeks ago lamented that the reduction of the imbalances had resulted in a loss of focus in international policy co-ordination.

The recent strength of the dollar has prompted fears in the German Bundesbank that the decline in the US deficit will go into reverse. On Friday Mr Lamberto Dini, the director general of the Bank of Italy, expressed similar worries.

Monetary officials are also concerned that financial markets will be less tolerant of current account deficits in the 1990s than in the past decade.

A recent paper from the Bank for International Settlements lists several reasons for doubting whether net capital flows will prove such strong supports of international current account imbalances.

- *Financial market liberalisation* is likely to spread outside the Anglo-Saxon world, undermining the pre-eminence of centres such as New York and London. These deep and liquid markets primed capital flows for much of the 1980s and helped sustain the international current account disequilibria.
- The end of strong economic growth in the 1980s has taken away one of factors that stimulated capital flows. The last decade spawned an international mergers and acquisitions boom, drove up equity prices and so stimulated corporate borrowing and in some countries boosted long-term interest rates. By contrast, the recession is leading to a contraction or deceleration of capital flows and the muted growth prospects for the 1990s hold out little hope of a strong revival.
- The overexposed position of some financial institutions has made some retrenchment inevitable.

But the paper says "the most compelling reason for doubting the ultimate sustainability of the pattern, if not the scale, of capital flows seen the second half of the 1980s is that capital imports have been used as a substitute for, rather than to supplement, domestic saving".

Put bluntly, international capital markets – having seen how capital imports have generally been used to sustain private consumption and public sector deficits – are likely to become far less permissive of imbalances than before.

This helps explain why central bankers and finance ministers are so anxious to encourage domestic savings and continue to worry about domestic imbalances such as the large US budget deficit. Their big worry is that the fall in savings that has generated such imbalances endangers the industrial world's non-inflationary growth potential by keeping interest rates high.

The scale of the savings problem was highlighted recently by Mr Jacques de Larosière, the governor of the Bank of France and former managing director of the International Monetary Fund.

He calculates that net savings fell to 10 per cent of the overall Group of Seven gross domestic product in the 1980s from 14 per cent in the 1960s. Put another way, 4 per cent of GDP vanished into consumption. And it cannot make the life of a central banker any easier to know that the public sector contributed mightily to this trend by shifting from a surplus of between 2 per cent and 2.5 per cent of G7 GDP in the 1960s to a deficit of 0.5 per cent 20 years later.

Weapons Waste

The Soviet Union's efforts to sell its military aircraft at the Paris airshow and last week's UK government decision to buy the army's new tank from Vickers were just the latest reminders that the arms business continues to thrive.

But while weapons manufacture provides jobs and exports, there is little evidence that it increases the economic or technological potential of the big *arms-producing countries*.

Indeed, a recent report circulated to governments by the Organisation for Economic Co-operation and Development (OECD) contains the damning conclusion that since the 1970s the pay-off from military research and development in terms of productivity and competitiveness "has at the least been very small and at the worst negative".

The report says that industrial case studies suggest that in the aircraft, computer, electronics and semiconductor industries normal business and consumer demand are now far more important spurs to R&D than the military market.

Military influence can represent a competitive handicap in consumer markets. "The name of the game today, if there is one, is 'spin-in': with advanced technology moving from civilian industries to the military sector rather than the other way," the report says.

The OECD report criticises military technology for its emphasis on performance over cost and reliability, a tendency to develop high and often "baroque" technology, long development cycles, inefficient product processes and the secrecy associated with security classification.

It has come to represent a heavy burden for all OECD member countries except possibly the US, it says.

If true, this is particularly bad news for Britain and France, which, the report shows, spent £2.23bn and £1.95bn respectively on military R&D in 1987.

This represented 0.54 per cent of UK and 0.47 per cent of French national output and 23.5 per cent and 20.8 per cent of their gross domestic expenditure on R&D.

The US spent 10 times the UK amount and devoted 0.88 per cent of GDP or 32.5 per cent of its overall R&D spending to military R&D.

But in Japan and Germany, which are notably successful economies, military R&D outlays were respectively only 0.14 and 0.02 per cent of GDP and 5 per cent and 1.2 per cent of total R&D outlays.

If there is a moral to this story, it is that the Soviet Union should accept western help to convert its huge arms industry to manufacturing consumer and other goods for its own sake as much as for that of the rest of the world.

Capital Flows in the 1980s: A survey of major trends, by Philip Turner. BIS Economic Paper No. 30. Bank for International Settlements, Basle.

Peter Norman

Innovative price-fixing idea for BT share sale

By Clare Pearson

ADVISERS to the sale of part of the government's remaining stake in British Telecom are expected to recommend that the shares be sold to the public at a percentage discount to the market rather than at a fixed price.

They are expected to suggest the sale is not underwritten.

The discount idea is thought likely to appeal to the Treasury.

The government is planning for a November sale of part of its remaining 49 per cent holding in BT, which in current market conditions is worth about £11bn ($18bn). It is believed the government may sell half of this.

Selling the shares at a percentage discount avoids fixing a price at the start of the public offer. It gets round the problem either that BT's share price will rise during the offer period, making the price look too low, or that it will fall and the issue will flop, as happened with the BP sale in 1987.

If the scheme were adopted, only the discount would be announced at the start of the offer period. The actual price which applicants would have to pay for shares would be set just before dealings started.

If underwriting were cut out the government could save about £30m in fees paid to institutions in return for them guaranteeing to take the shares off its hands. It is argued this guarantee is not necessary when a company is already privatised.

Shares are expected to be sold to institutions in a bidding process, similar to that adopted in the recent privatisations of the electricity generators and the Scottish electricity companies.

COMPANIES AND FINANCE

Chairman steps down at loss-making Clayform

By Michiyo Nakamoto

MR BRYAN Burletson is stepping down from his role as chairman of Clayform Properties just two months after the company reported a sharp decline into pre-tax losses for 1990.

He is also resigning from the board of Dunloe House Group, the quoted Irish development company that is 77 per cent-owned by Clayform.

Mr Robert Ware, a joint managing director of Clayform who succeeds Mr Burletson as chairman of Dunloe House, said that the company had to focus on reducing its debt burden and that Mr Burletson "is not best equipped to do that."

"It's a hard grind and there is no role for somebody of his background," Mr Ware said.

The acquisition in July 1989 of Stead & Simpson, the shoe retailer, had pushed borrowings up substantially.

In its latest annual report the group stated that since the year-end existing banking facilities had been negotiated to ensure sufficient working capital was available to enable it to continue trading for the foreseeable future.

Mr Burletson, who co-founded Clayform, built up the business from a small property developer to a much larger group involved in property investment to shoe retailing. He became chairman and chief executive of Clayform in 1988.

In the wake of the company's last results, which showed a pre-tax loss of £39.14m for the year to December, compared with a profit of £18.03m, Mr Burletson relinquished his position as chief executive while retaining his role as chairman.

Mr Ware and Mr Brian Dowling were appointed joint managing directors.

Merlin losses deepen to £7m

By Richard Gourlay

MERLIN INTERNATIONAL Properties, the troubled Isle of Man company, incurred a pre-tax loss of £7.06m in the six months to December 31 compared with a £5.5m deficit in the same period of the previous year.

The company said it was still being held back by a growing overdraft and substantial operating losses in the Australian car parks division.

The directors are not recommending a dividend.

The taxable loss was made up by trading losses of £3.55m (£3.57m), a £2.33m (£1.92m) share of losses from associated companies and £1.18m of exceptional charges.

Merlin also announced that it might be forced to take action against Westpac Banking of Australia over £6.5m which the Manx company said it was owed by a Westpac subsidiary for the settlement of a debt due from a joint-venture partner.

Merlin said that once it had received this money it would be in a position to request that its shares be re-quoted – they are suspended at 5p.

Earlier this year Merlin was the subject of an abortive £2.9m bid from Luirc, which is based offshore and owned by Switzerland-based Estonia Venture. The bid was subsequently withdrawn, a move criticised by the Takeover Panel.

The money was supposed to come via a loan from Bonaventure Investments, another offshore concern.

In April, the Isle of Man Fraud Squad announced that it had completed its investigation into Merlin and had found no evidence of any irregularity that would justify further enquiries.

The company said it was continuing to try to reduce overhead costs and ways of raising cash to sustain the business so that assets could be sold.

W'minster Scaffolding rights flop

The £3.5m rights issue by Westminster Scaffolding, the USM-quoted property group, has been largely left with the underwriters.

Only 4.1m of the 15.6m shares on offer were taken up, and of these 3.8m were bought by directors and a shareholder who had irrevocably undertaken to subscribe. The 3-for-2 issue was at 25p.

The news came after the market closed on Friday with the shares unchanged at 22p.

Illingworth Morris falls to £4.29m

By Clay Harris

ILLINGWORTH MORRIS, the privately owned textiles group, blamed recession, the Gulf war and the collapse of wool prices for a 53 per cent fall in pre-tax profits from £9.04m to £4.29m in the year to March 31.

Turnover fell by 22 per cent to £49.55m (£63.39m) and earnings per share to 8.9p (15.7p).

The decline in profits was exaggerated by the disposal of Winterbotham Strachan & Playne, a maker of specialist wool cloth used on tennis balls and billiard and snooker tables. In the group's continuing activities, turnover fell by 9 per cent and operating profits by 40 per cent, according to Mr Nigel Denby, finance director.

The pre-tax total included an exceptional profit of £977,000 (£387,000). The WSP disposal resulted in an £8.6m profit, which contributed to an extraordinary credit of £3.97m (£3.35m debit).

The result of a Monopolies and Mergers Commission investigation into Illingworth's acquisition of Jarmain & Son, one of Europe's largest wool-scouring companies, is expected by mid-July.

Brunner Trust

Net asset value per share of the Brunner Investment Trust stood at 188.1p at May 25. That compared with 196.3p at the same stage 12 months earlier and with 157p at the November 1990 year-end.

Net profits for the half year ended May 25 rose to £1.67m (£1.58m), equal to earnings of 2.61p (2.47p). The interim dividend is 2.2p (2p) and the board intends to pay a total of not less than 4.6p (4.3p).

Mannesmann of Germany shows an interest in Davy

By Peter John

MANNESMANN, the German engineering group, emerged yesterday as one of the companies interested in Davy Corporation, the UK's largest independent engineering contractor which has effectively put itself up for sale after heavy losses on its oil rig conversion contract.

In a statement, Mannesmann said: "We are examining whether a co-operation with the metals division of Davy would make sense."

The company refused to comment on speculation that it was about to launch a £150m bid for the division.

The metals arm is Davy's most attractive asset. It made operating profits of £29.53m on a turnover of £771m in the year ending March 31. It was the only division to make a profit and the group as a whole reported a 29 per cent fall in pre-tax profits to £20.1m.

The most significant factor in the losses was Davy's still unfinished conversion of the Ocean Emerald rig, east of Shetland, into an oil production platform. It cost the company £114m.

When it announced its results on Thursday Davy declared what was effectively a liquidation. It is now, to all intents and purposes, in the hands of a 13-strong banking consortium led by National Westminster.

The only significant business which Davy is considering keeping is its construction subsidiary, Monk, which made £5.13m operating profits last year.

The Emerald rig is the latest in a number of large contracts to have hurt the 150-year-old company. Recently, it was involved in a dispute with Esso over a contract at the UK's largest oil refinery at Fawley, near Southampton.

4.4% holding in Tace changes hands

The family trust of Mr Bob Morton, who resigned last Wednesday as a non-executive director of Tace, has sold its 4.4 per cent stake in the troubled environmental control equipment company, writes Richard Gourlay.

Fidelity, the investment institution, bought the stake at 21.9p – 1p below the cash equivalent of an offer for Tace made earlier this month by Cambridge Electronic.

Baring Brothers said the trust, Southwind, had offered Cambridge the stake. A Baring spokesman said Cambridge was not in a position to accept the stake. Cambridge already has the irrevocable support for its bid from Tace's founder, Mr Jock Mackenzie, who controls 23 per cent of the company.

The Tace board was removed last week after an EGM called by Norwich Union and Framlington.

MMG again urges rejection of TT bid

By Jane Fuller

MAGNETIC Materials Group, the USM-quoted maker of magnetic components fighting off a £8.9m bid from TT Group, has said that the sale of surplus properties could raise £3m.

Its latest document, urging shareholders to reject the 54p-a-share cash bid and the paper alternatives, says the value of these properties is 15.25p a share. Excluding this, TT's final offer was worth only 38.75p a share, it said.

MMG, which made £1.51m pre-tax profit in 1989-90 but is forecasting £625,000 for the year to June 30, also stressed the scope for recovery as the recession had cut turnover by 11 per cent.

For every 1 per cent increase in turnover next year, MMG said pre-tax profit would increase by at least £80,000 thanks to cost savings.

MMG's share price closed at 55p on Friday and TT's at 135p, making the 4-for-10 all share offer worth 54p, the same as the cash bid.

The next closing date will be July 5, but the offer period can run for 10 days after that. At the latest count, TT controlled just over 27 per cent of MMG's equity.

Etam bid deadline believed set

By Clare Pearson

THE TAKEOVER Panel is believed to have set a deadline of 5pm on Wednesday for Oceana Investment Corporation, the vehicle for the South African retailing family, the Lewises, to launch its long-awaited £121m hostile takeover bid for Etam, the UK fashion chain.

Etam has meanwhile discovered that Private Bank & Trust, the private bank backed the Greek Latsis family which was set up in London two years ago, has a legal interest in some of the shares which are held by Oceana.

Mr Keith Miles, finance director, said yesterday: "It appears that Private Bank is backing Oceana" which in total owns a 27.1 per cent stake in Etam.

The interest was discovered through sending out Section 212 notices after Oceana launched a tender offer to acquire 18.5 per cent of the shares in May.

Private Bank has so far assumed a low profile after setting up in business with an unusually large amount of capital, £100m, in July 1989. Its chief executive, Mr Christopher Ball, previously ran Barclays Bank's South African operation.

Neither side will confirm the officially-secret Wednesday deadline, which will end uncertainty over Oceana's position stretching back to the beginning of the year. Oceana has stipulated it will not bid more than 185p per share, the amount paid in the tender.

CROSS BORDER M&A DEALS

BIDDER/INVESTOR	TARGET	SECTOR	VALUE	COMMENT
Metallgesellschaft (Germany)	Unit of FeNo (Swedish owned)	Engineering	£494m	Non-core sale by Stora
ASLK - CGER (Belgium)	Compagnie de Bruxelles (UK-owned)	Insurance	£90m	Eagle Star non life sale
Julius Meinl (Austria)	Csemege Trading Company (Hungary)	Food retailing	£18m - plus	Significant privatisation
New London (UK)	Inernational Drilling Fluids (US)	Oil & gas	£13.1m	Sale by ECC Group
Unilever (UK-Holland)	Pollena Bydgoszcz (Poland)	Detergents	£12.1m	Biggest Polish privatisation yet
Procter & Gamble (US)	Rakona (Czechoslovakia)	Detergents	£12.1m	Procter & Gamble takes 100 per cent
Saurer (Switzerland)	Schlafhorst (Germany)	Plant manufacturing	n/a	Saurer buying to compete
Nansin (Japan)	Flexello Castors & Wheels (UK)	Metal finished products	£4.3m	Japan likes US manufacturers
TI Group (UK)	Huron Products Industries (US)	Car components	£27.4m	TI adds arm
Allied Irish Banks (Ireland)	York Bank & Trust Co (US)	Banking	£80m	AIB's second big recent deal

Source: FT Mergers & Acquisitions International

No Probe

The acquisition of Robertson Group by Simon Engineering will not be referred to the Monopolies and Mergers Commission.

COMPANIES AND FINANCE

CBOT looks at electronic trade in hybrids and swaps

By Barbara Durr in Chicago

THE CHICAGO Board of Trade has proposed a new local electronic trading network designed to compete in such off-exchange cash market products as swaps.

In a speech to the CBOT membership last week, CBOT chairman, Mr William O'Connor, said he aimed not only to preserve open outcry, or pit trading, but to expand member opportunities by creating a local area network of electronic trading for low volume futures and non-futures products during the normal trading day.

Mr O'Connor said the CBOT faced an increasingly competitive threat from trading in off-exchange products – "virtually indistinguishable from futures" – such as financial hybrids and swaps. The proposal, called Project A, has been approved by the CBOT board and will now be discussed in floor meetings with members.

Given that Project A would be a departure from the exchange prohibition on electronic trading, membership approval is required. The project will not interfere with Globex, the international electronic trading system under development with the Chicago Mercantile Exchange.

William O'Connor: aims to expand opportunities

Mr O'Connor said he intended to explore the participation of the CME in Project A as well.

Mr John Sander, chairman of the CME, said last week that the delayed Globex was now "on track". But he put its launch date "optimistically" at October and "pessimistically" at next May.

The two exchanges have been working jointly to reduce their costs by eliminating duplication. Mr O'Connor said his priority was to unify clearing between the two exchanges. He argued that it was preferable for the two Chicago exchanges to move voluntarily toward unified clearing before it was mandated by the US government.

He anticipated that a forthcoming Securities and Exchange Commission study on unified clearing would force the issue, and not in a way favourable to the futures markets. Unified clearing would also reduce costs for members of both exchanges and help preserve Chicago as the worldwide centre of futures trading.

Drexel, IRS deal brings creditor pact closer

By Karen Zagor in New York

THE POSSIBILITY of a resolution to the securities litigation against Drexel Burnham Lambert is closer following the now-defunct investment bank's tentative settlement with the Internal Revenue Service (IRS), which has filed a $5.3bn claim against Drexel.

A final settlement with the IRS would remove one of the most formidable barriers to a reorganisation plan struck between Drexel and its creditors earlier this year.

Tax claims take high priority in bankruptcy cases, and the IRS claim had threatened the pact, which would distribute almost all of Drexel's $2.6bn in assets to creditors and securities litigation claimants.

Drexel – which filed for bankruptcy protection in February 1990 – was granted a reprieve from a court trial when Judge Milton Pollack postponed a hearing scheduled for Friday to give the IRS time to get approval for the settlement from the justice and treasury departments.

A bankruptcy court case to hear the merits of the IRS claim will begin on August 5 if approval for the accord is withheld.

The IRS has alleged it is owed $5.28bn for back taxes, interest and penalties from between 1980 and 1990. However, Judge Pollack, who stepped in to help expedite proceedings, has charged the IRS with seeking a grossly inflated claim and failing to back up allegations.

Although terms of the tentative IRS pact have not been disclosed, it is believed that the government agency's demands have been reduced to meet the overall settlement of Drexel's case.

One of the main sticking points centres on tax deductions of about $1.4bn which Drexel took to compensate seven executives in its high-yield junk bond division from 1981 to 1989, including about $550m paid to Mr Michael Milken in 1987. Drexel maintains that the compensation was reasonable and legal.

The IRS contends that these payments were too big and constituted dividend payments to shareholders, which are not deductible as business expenses.

Bank of China wins go-ahead for Tokyo bond issue

By Robert Thomson in Tokyo

THE BANK of China, the Chinese foreign exchange bank, has received informal approval for a Y20bn ($140.8m) bond issue in Tokyo that will mark the end of Japanese financial sanctions imposed on Beijing after the Chinese pro-democracy movement was crushed two years ago.

State-run Chinese financial institutions, including the bank and the China International Trust and Investment Corporation (Citic), had routinely organised Samurai issues – yen-denominated bonds issued in Japan by a foreign entity – and Tokyo's approval will give Beijing important flexibility in raising foreign funds.

The terms of the bank's issue are still being negotiated. However, the lead manager, Yamaichi Securities, said yesterday an agreement would be signed next week and the straight bonds would be issued in the second week of July. The issue is expected to prompt a renewal of Chinese interest in the Tokyo market.

At least two other Chinese institutions are known to be discussing an issue with Japan's Ministry of Finance, and the timing will depend more on the state of the Japanese bond market, which has been weak, than on political considerations.

The Bank of China will list projects for which the funds will be used – in particular, the construction of a chemical complex – though it is likely they will also be used to service foreign debt. Yamaichi is encouraging the bank to be specific about the projects to which the funds will be given.

It is expected that the bank will immediately swap the yen into US dollars, as Beijing has suffered in the past from yen exposure. Japanese institutions have confirmed that in the late 1980s, several yen loans to China were rescheduled after borrowers were put under pressure by the rapid appreciation of the Japanese currency.

A Yamaichi official said there was likely to be demand for a Chinese issue, although the bond market in recent days had been "very bad".

Prices for electricity determined for the purposes of the electricity pooling and settlement arrangements in England and Wales

1/2 hour period ending	Provisional Price for Trading on 23.06.91: Pool purchase price £/MWh	Final Prices for Trading on 20.05.91: Pool purchase price £/MWh	Pool selling price £/MWh
0030	16.04	16.37	16.37
0100	15.97	16.02	16.02
0130	15.97	16.02	16.02
0200	16.04	16.02	16.02
0230	16.04	16.02	16.02
0300	15.97	16.02	16.02
0330	15.97	16.02	16.02
0400	15.97	16.02	16.02
0430	15.97	16.02	16.02
0500	15.97	16.02	16.02
0530	15.97	16.02	16.02
0600	15.98	16.02	16.02
0630	15.97	16.02	16.02
0700	15.99	16.02	16.02
0730	15.97	16.01	16.01
0800	15.99	16.02	16.02
0830	16.04	16.38	16.38
0900	17.60	18.66	19.90
0930	17.60	18.66	19.90
1000	19.43	19.20	20.46
1030	19.43	19.20	20.45
1100	19.43	20.77	22.07
1130	20.52	21.52	22.86
1200	20.52	21.52	22.85
1230	24.50	22.14	23.49
1300	24.50	22.14	23.50
1330	20.52	19.20	20.47
1400	19.43	18.66	19.91
1430	18.12	18.66	19.91
1500	18.12	18.66	19.92
1530	18.12	18.66	19.92
1600	18.12	16.02	16.02
1630	18.12	16.02	16.02
1700	18.12	18.66	19.91
1730	18.12	18.66	19.91
1800	18.12	18.66	19.91
1830	18.12	18.66	19.91
1900	18.12	18.66	19.91
1930	18.12	18.66	19.91
2000	18.12	18.66	19.91
2030	18.12	16.02	16.02
2100	18.12	18.66	19.91
2130	18.12	18.65	19.90
2200	22.39	21.30	22.62
2230	27.19	21.30	22.63
2300	27.19	21.30	22.63
2330	16.26	18.66	19.91
2400	16.04	18.66	19.92

Prices are determined for every half-hour in each twenty-four hour period. Prices are in pounds per megawatt-hour, rounded to two decimal places. To convert prices to pence per kilowatt-hour the decimal point should be moved one place to the left, eg £16.86/MWh becomes 1.686p/KWh. Provision for the determination of pool prices is made in the Pooling and Settlement Agreements which govern the operation of the electricity pool in England and Wales. The Pool Purchase Price is the basis of the majority of payments made to generators in respect of electricity traded through the pool. The provisional Pool Purchase Price is subject to revision or correction until final pool prices are determined approximately twenty-four days after the day of trading. Pool Selling Price is the price paid by purchasers of electricity under the pool trading arrangements. It is dependent upon the determination of Pool Purchase Price. Final pool prices are also capable of revision.

NGC Settlements Limited

Prices for electricity determined for the purposes of the electricity pooling and settlement arrangements in England and Wales

1/2 hour period ending	Provisional Price for Trading on 24.06.91: Pool purchase price £/MWh	Final Prices for Trading on 27.05.91: Pool purchase price £/MWh	Pool selling price £/MWh
0030	15.99	16.02	16.02
0100	15.99	16.02	16.02
0130	15.97	16.02	16.02
0200	15.99	16.02	16.02
0230	15.99	16.02	16.02
0300	15.99	16.02	16.02
0330	15.99	16.02	16.02
0400	15.97	16.02	16.02
0430	15.97	16.02	16.02
0500	15.97	16.02	16.02
0530	15.97	16.07	16.07
0600	15.99	16.07	16.07
0630	15.94	16.07	16.07
0700	16.26	16.07	16.07
0730	18.77	16.07	16.07
0800	19.49	16.30	16.30
0830	19.73	17.92	19.43
0900	21.59	17.92	19.42
0930	22.15	18.29	19.80
1000	22.74	19.16	20.70
1030	23.46	20.58	22.17
1100	29.83	20.58	22.16
1130	30.74	20.58	22.17
1200	30.92	20.58	22.17
1230	30.58	20.58	22.16
1300	28.16	20.16	21.72
1330	21.86	18.85	20.38
1400	20.38	18.29	19.80
1430	19.79	18.29	19.80
1500	19.74	18.29	19.80
1530	21.06	16.16	16.16
1600	21.19	16.16	16.16
1630	21.36	18.29	19.80
1700	21.36	18.29	19.80
1730	21.24	21.30	22.91
1800	20.07	21.30	22.91
1830	19.61	21.30	22.91
1900	18.82	18.29	19.80
1930	18.78	18.29	19.80
2000	18.75	18.29	19.80
2030	18.23	18.29	19.80
2100	18.23	16.16	16.16
2130	20.00	18.29	19.79
2200	20.00	20.88	22.58
2230	20.00	20.88	22.57
2300	20.00	20.88	22.58
2330	18.17	18.03	19.54
2400	17.90	16.30	16.30

Prices are determined for every half-hour in each twenty-four hour period. Prices are in pounds per megawatt-hour, rounded to two decimal places. To convert prices to pence per kilowatt-hour the decimal point should be moved one place to the left, eg £16.86/MWh becomes 1.686p/KWh. Provision for the determination of pool prices is made in the Pooling and Settlement Agreements which govern the operation of the electricity pool in England and Wales. The Pool Purchase Price is the basis of the majority of payments made to generators in respect of electricity traded through the pool. The provisional Pool Purchase Price is subject to revision or correction until final pool prices are determined approximately twenty-four days after the day of trading. Pool Selling Price is the price paid by purchasers of electricity under the pool trading arrangements. It is dependent upon the determination of Pool Purchase Price. Final pool prices are also capable of revision.

NGC Settlements Limited

Italian bank cuts Ecu charges

By Peter Marsh, Economic Staff

SAN PAOLO Bank, Italy's biggest bank, is halving its commission charges for corporate customers which change money to and from Ecus, as part of a drive to encourage more companies to use the unit.

The bank's rate for these transactions will from today be 0.075 per cent, compared with 0.15 per cent previously. Since the higher figure is broadly in line with the rates charged by San Paolo for changing money between different national currencies, the move represents a considerable incentive for companies to use the Ecu.

The Ecu, which was invented in 1979, is increasingly used in the bond market and for channelling money between governments, but barely figures in commercial transactions.

According to the Ecu Banking Association, a group of European banks trying to promote the Ecu, the unit is used in only about 1 per cent of all intra-European trade.

Mr Dominique Rambure, a senior executive at San Paolo, said he would be trying to persuade more banks to follow the lead of his institution in cutting charges for using the unit.

Mr Rambure, who is also chairman of the Ecu Banking Association, said San Paolo already had a large amount of business in Ecu-based transactions.

Advocates of the Ecu believe more companies would use the unit if banks went out of their way to make Ecu-denominated accounts more attractive.

The theoretical advantage of the Ecu is that it can be used in any European Community state, saving businesses the effort of changing money into national currencies.

The Ecu is seen by many enthusiasts for European economic and monetary union as the unit which will ultimately form a single currency for all Europe.

However, many companies are reluctant to use the Ecu in accounting and invoicing because Ecu notes and coins do not exist. Therefore, increased use of the Ecu in commerce and industry depends on the willingness of a large number of companies to set up accounts in the unit which can be drawn from and built up.

Labatt hit by C$61m provision for revamp

By Robert Gibbens in Montreal

JOHN LABATT, the brewing, food product and entertainment arm of the Brascan group, says it had a "deeply disappointing" year, but profits should be back to normal in fiscal 1992.

A poor domestic beer market and a heavy restructuring charge were the main factors in the year ended April 30.

For the final quarter, sales were C$1.26bn (US$1.1bn), down 4 per cent from C$1.31bn a year earlier, and net profit was C$5m, down 89 per cent from C$46m. There were no earnings applicable to the common stock, against 52 cents a share a year earlier.

Brewing results for the quarter were down, though Labatt held its domestic market share and international operations did better. Food operations improved, but the grains business did poorly.

The quarter was affected by a special C$61m restructuring charge. For the year as a whole, sales were C$5.4bn, up 2 per cent from C$5.3bn, and earnings were C$109m, or C$1.10 a share, down 36 per cent from C$169m, or C$2, in fiscal 1990.

Beer sales rose 6 per cent and food operations dipped 1 per cent. Average beer market share was down 0.4 per cent to 41.8 per cent, due to volume gains by regional and speciality brewers. Sales in Europe and the US were strong.

The food operations finished about even with fiscal 1990, and the entertainment group showed mixed results.

US insurer to set up broking offshoot in UK

By Richard Lapper

JOHNSON & Higgins, one of the biggest insurance brokers in the US, is to set up a retail broking company in the UK, ending speculation about a possible link-up between J&H and a UK broker.

J&H was allied with the UK broker Willis Faber, before the latter company opted to merge with rival US broker Corroon & Black in September. Last autumn J&H held extensive but eventually fruitless talks about a possible alliance with the London-based broker CE Heath.

Headed by chief executive Mr Patrick Franklin-Adams, who has worked with the Sedgwick Group, the new subsidiary will build up business from commercial clients in both the UK and Ireland. It will co-operate with UNISON, an international network which J&H built up with Willis.

In 1987, J&H established a London wholesale brokerage operation, which places business on behalf of retail brokers. It has 200 employees.

Venezuela sell-off picks up

By Joseph Mann in Caracas

THE Venezuelan government's tortoise-like privatisation programme shows signs of picking up speed.

The government unveiled its privatisation plans more than two years ago, but has sold only two commercial banks from a list of scores of state-owned enterprises.

The Venezuelan Investment Fund (VIF), the government financial agency that controls the privatisation process, has now invited investors to submit pre-bidding qualifications for the sale of Astinave, a state-owned shipyard, and four tourist hotels.

The VIF is also close to seeking formal tenders on a commercial bank, the state-owned telecommunications company (CANTV), and Viasa, the government's international airline.

The sale of Banco Republica, in which the state holds more than 80 per cent of shares, is scheduled for June 26. Only Venezuelan investors are expected to offer tenders on the bank, the third state-controlled financial institution to be put on the block so far.

The sales of a majority of shares in the CANTV and Viasa are expected to be completed during the next three to four months.

MRI TOKYO BOND INDEX

December 1985 = 100	20/06/91	Average yield† (%)	Last week	12 wks ago	26 wks ago
Overall	155.85	7.38	154.99	153.64	150.77
Government Bonds	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Municipal Bonds	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Govt.-guaranteed Bonds	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Bank Debentures	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Corporate Bonds	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Yen-denom. Foreign Bonds	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Government 10-year	6.74		6.76	6.59	6.52

† Estimated par yield

Source: Nomura Research Institute

Barclays in £50m bonds buyback

BARCLAYS BANK has repurchased £50m of an outstanding £250m issue of senior, subordinated bonds, writes Tracy Corrigan.

Barclays has not yet decided whether to cancel the bonds, which were eligible as Upper Tier 2 capital under the international capital adequacy guidelines. Barclays will have to resell the bonds if they are to be acceptable.

Since the issue was launched last November, Barclays has completed preference share issues in the US, which count as Tier 1 capital. The 12½ per cent seven-year bonds were trading at a yield spread of about 75 basis points above the comparable gilt issue last week.

INTERNATIONAL CAPITAL MARKETS

UK GILTS

Auction concerns subdue trading

DISCUSSION about the pace of UK interest-rate cuts continued to dominate the gilt market last week. The consensus is that base rates, now at 11½ per cent, will come down by a ½ percentage point over the next few weeks as part of the government's cautious strategy aimed at reviving the economy.

Trading in gilts was subdued as market makers and investors awaited Wednesday's auction by the Bank of England of £1.5bn of 10 per cent Treasury stock, repayable in 2001. Bonds of this 10-year maturity are seen as a benchmark in much of Europe. The theory seems to be that overseas investors in particular will find the stock attractive.

However, there are considerable doubts as to how well the auction will proceed. The market has been in a languid state for several weeks, as a result of worries about the weak pound and the government's handling of the economy.

Gilt practitioners are nervous about the prospects of a *large volume of issues in this* financial year. These will be needed to finance public spending and will almost certainly depress prices. Last week, reflecting this general torpor, prices slipped marginally for all gilts along the yield curve.

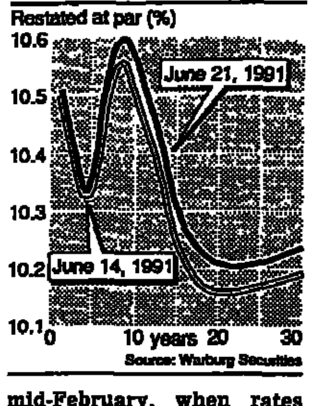
Further evidence of the depressed state of the UK economy provided little relief. News of this kind might have been expected to lift bond prices, cutting yields, due to an improved outlook on inflation.

However, the market has in recent weeks equated gloomy news on the economic front with the prospect of higher government borrowing to fund unemployment pay and other recession-related payments. Hence the new information about the economy last week – a further fall in output in manufacturing, and weak figures for the money supply – drove the market further down.

Last week's data underlined suggestions that the economic upturn, which the government hoped to see around this summer, will be postponed until the end of the year. Despite this, ministers are thought unlikely to alter their "softly-softly" approach to cutting *rates by a ½ percentage point* at a time, spread out over relatively long intervals. This is the strategy the Bank and the Treasury have followed since mid-February, when rates stood at 14 per cent.

UK gilts yields

Restated at par (%)



Source: Warburg Securities

There appear to be several reasons why the authorities are sticking to this line:

● Were rates suddenly to be *cut by 1 per cent or even more*, the action would be interpreted as a panic move designed to jerk the economy into action ahead of an election – which has to be fought in the next year. It would be an admission *that the previous cautious* strategy was wrong, and might unsettle the markets.

● Consumer spending – which accounts for two thirds of UK output – has so far been slow to take off from the depressed state of the winter, despite the rate cuts.

This has been natural enough. People have been reluctant to raise spending levels when many are having to pay off large debts, especially on mortgage payments, run up during the boom of the late 1980s.

However, it does appear that all the ingredients for a modest spurt in consumer spending are now in place, triggering a recovery of sorts towards the end of the year, and that the government will have to be patient.

● If rates were cut by too much in the next month or so, the authorities might have to put them up again early next year – especially if sterling shows more signs of weakness within the European exchange rate mechanism.

That is precisely the prospect which ministers want to avoid. Cutting rates before an election is seen as being helpful to a government's chances *of winning; raising them, however*, would virtually guarantee defeat.

Peter Marsh

PORTUGUESE BONDS

Foreigners undaunted by bank warning

FOREIGN investors' appetite for Portuguese government bonds appears as strong as ever despite warnings by Portugal's central bank that controls on foreign capital flows may have to be tightened.

In addition, the bank has said that the escudo may be allowed to fluctuate more extensively against other European currencies to curb what are seen as excessive – mainly short-term – capital inflows to the country.

Analysts say the strong demand for last week's issue of Obrigacoes do Tesouro (OT), shows that interest remains vigorous on the part of foreign investors eager to take advantage of high yields and the prospect of capital gains. Demand for the five-year, 16 per cent issue totalled Es58.3bn ($385m), more than twice the Es26.7bn raised by the sale.

Earlier this month, Mr Jose Alberto Tavares Moreira, governor of the central bank, warned that Portugal may make "a significant adjustment in the escudo rate" to deter speculative investments attracted by high interest rates and the escudo's stability. This had the immediate effect of causing a fall of about 1 per cent in the value of the escudo against a basket of European currencies made up of the British pound, French franc, German mark, Italian lira and the Spanish peseta.

Two days later, Mr Tavares Moreira raised the possibility of tougher action. "The recent resurgence of capital inflows, mostly linked to a very strong demand for treasury notes and bonds, may eventually lead us to the conclusion that the set of controls currently in force is not tight enough. If the inflows were to last, then it will most likely be necessary to tighten the controls adopted so far and to step up the pace of external debt redemption," he said. He also suggested a concomitant reduction of the interest carried on government and public sector bonds.

The central bank is concerned that the past few years' dramatic rise in foreign investment in Portugal – which it welcomes – has been accompanied by an increasing volume of less desireable short-term "speculative" capital inflows, which, it says, are fuelling inflation – currently running at over 12 per cent on an annualised average – and undermining the authorities' monetary policy targets.

The inflation differential with Portugal's European partners is delaying the escudo's entry into the exchange rate mechanism of the European Monetary System, which officials say will not happen until at least next year.

Analysts see the warnings, directed at both the local banks and foreign investors, as an attempt to talk the market down rather than as an immediate threat.

They say external factors have contributed to the strong increase in foreign investor interest in Portuguese government bonds, especially fixed rate securities such as the OTs.

The government itself has encouraged investment into OTs because it is cheaper than raising funds through its usual floating-rate bonds.

Foreign investors, who are estimated to have taken up more than 50 per cent of the latest OT issue, prefer fixed-rate bonds because there is a greater possibility of capital gains as Portugal's interest rates converge with the rest of Europe.

Patrick Blum

US MONEY AND CREDIT

Focus shifts to G-7 move on dollar

THE EYES of the US credit markets, which have been firmly focused on signs of a US economic recovery, switched to London at the weekend for clues that a meeting of the G-7 industrial economies might try to hold back the rising dollar.

The dollar, which has risen 20 per cent against most G-7 currencies since its February low point, weakened somewhat *last week amid speculation* that there might be concerted intervention in the currency markets to "cap" it at around DM1.80 and Y140.

Certainly, a slowing of its appreciation would be in the interests of most G-7 countries, since the US wants to see lower world interest rates and a continued rise would put more upward pressure on German rates and reduce Japan's ability to cut its own.

However, heavy intervention could have a depressing knock-on effect on US bond prices, since foreign central banks would probably have to sell short and intermediate US Treasury paper to buy the dollars *needed for their market* tactics. And while foreign exchange intervention tends, over the medium-term, to have a Canute-like futility, expectations of a temporary slowdown in the dollar's advance could *also deter foreign buyers of US* government paper.

An immediate move into the currency markets would not be the most felicitous backdrop for this week's hefty government auction of $12.5bn of two-year notes and $9.25bn of five-year maturities. However, whenever intervention occured it would probably put further upward pressure on US yields, at a time when the economic statistics are pushing in the same direction. For the mounting evidence that the US economy *has touched bottom, and* may now be in the early stages of a slow recovery, continues to rattle the bond market, which has yet to be convinced that this will not re-ignite the fires of inflation.

Last week's economic news contained doubts about the strength of the recovery, which gave the market some temporary heart. For example, a warning from International Business Machines of *poorer-than-expected first-quarter* figures, and a very cautious statement on the vigour of any third-quarter upturn, suggests that capital spending remains lacklustre.

The market also liked the news that *claims for unemployment* insurance rose in the first week of June, although this may have been an aberration connected with the date of a public holiday.

There remains feeling that the incipient upturn will prove temporary and that the US, *weighed down with debt and* with impending state and local budget cuts, will not see a sustained economic improvement until at least the first quarter of next year.

However, the bond market *clearly holds more store by the* optimistic noises emanating from the Federal Reserve Board.

Mr Alan Greenspan, the Fed chairman, said last week that the economy had bottomed out, while the Fed's Beige Book, its periodic round-up of business conditions around the US, spoke of conditions "improving moderately in much of the nation".

Whatever the strength and duration of the recovery, the Fed's appraisal seems to rule out further monetary easing unless clear signs emerge of the revival petering out. Indeed, market speculation is now turning to the point at which the Fed will start to tighten monetary policy again.

(That is unlikely to happen immediately. Fixed income analysts at Salomon Brothers point out that the interlude between a final Fed easing move and resumed tightening has historically been about five months.)

The net effect of these disparate factors last week was to edge long bond yields back up to the top of the 8 to 8.5 per cent range, where they have been *stuck for months now*. There is a growing feeling on Wall Street that they could be pushed much higher – towards 9 per cent – over the second half of this year by a combination of recovery and *concern over* a heavy supply of government paper.

Yet this may also pave the way for a strong rally, which could carry long bond yields down to the 8 per cent barrier, or even lower, if the market *can be convinced that inflation* is no longer a problem. A second downward leg to the recession would certainly do that. But so too could a soft take-off.

Certainly, inflation statistics over the past four months have been encouraging, while money supply growth has been moderate. And the history of post-war recessions is that inflation does not normally drop during the downturn, but always declines (for up to a year) after the upturn begins.

Martin Dickson

US MONEY MARKET RATES (%)

	Last Friday	1 week ago	4 wks ago	12-month High	12-month Low
Fed Funds (weekly average)	5.69	5.62	5.38	11.00	2.00
Three-month Treasury bills	5.73	5.74	5.53	7.98	5.53
Six-month Treasury bills	6.00	6.03	5.85	8.04	5.82
Three-month prime CDs	6.08	6.15	5.97	9.01	5.86
30-day Commercial Paper	5.95	4.00	5.80	9.95	5.80
90-day Commercial Paper	6.00	6.00	5.81	10.05	5.81

US BOND PRICES AND YIELDS (%)

	Last Fri.	Change on wk	Yield	1 week ago	4 wk. ago
Seven-year Treasury	[illegible]	[illegible]	8.16	8.13	7.93
20-year Treasury	[illegible]	[illegible]	8.51	8.45	8.30
30-year Treasury	[illegible]	[illegible]	8.51	8.44	8.29

Source: Salomon Bros (estimates).

Money supply: In the week ended June 10, M1 rose by $5.9bn to $856.5bn.

FT/AIBD INTERNATIONAL BOND SERVICE

U.S. DOLLAR STRAIGHT	Issued	Bid price	Chg on week	Yield
ABBEY NATIONAL 8 7/8 93	150	[illegible]	[illegible]	7.87
ABN 9 1/8 94	200	[illegible]	[illegible]	8.45
AETNA LIFE & CAS 7 3/4 16	200	[illegible]	[illegible]	7.78
ALBERTA PROVINCE 8 5/8 96	750	[illegible]	[illegible]	8.55
ALBERTA PROVINCE 9 3/8 95	600	[illegible]	[illegible]	8.46
AMERICAN EXPRESS 0 00	450	[illegible]	[illegible]	[illegible]
AMERICAN GENERAL 9 3/4 95	100	100	[illegible]	[illegible]
ANHEUSER-BUSCH 9 1/8 92	100	[illegible]	[illegible]	7.73
ASIAN DEV BANK 0 04	1000	[illegible]	[illegible]	9.25
AUSTRALIA 11 95	200	108	[illegible]	8.51
AUSTRALIAN WHEAT 9 1/2 93	200	[illegible]	[illegible]	8.03
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
RALSTON PURINA 11 3/4 95	150	[illegible]	[illegible]	9.52
REED PUBLISHING 9 5/8 97	150	[illegible]	[illegible]	9.31
REYNOLDS (RJ) 10 1/4 93	100	[illegible]		10.40
SAINSBURY 9 1/8 96	150	[illegible]	[illegible]	8.74
SARA LEE 9 3/8 93	150	[illegible]	[illegible]	8.18
SAS 10 99	200	[illegible]	[illegible]	10.10
SAS 10 1/8 95	150	[illegible]	[illegible]	9.59

	Issued	Bid price	Chg on week	Yield
SASKATCHEWAN 15 92	150	[illegible]		7.75
SBAB 9 1/2 95	500	[illegible]	[illegible]	8.41
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
NAT BK HUNGARY 8 96	200	[illegible]	[illegible]	10.37
QUEBEC HYDRO 6 3/4 99	300	[illegible]		8.73
SWEDEN 6 1/8 98	300	[illegible]	[illegible]	[illegible]
VENEZUELA 8 1/4 93	100	[illegible]	[illegible]	10.04
WORLD BANK 0 15	2000	[illegible]		7.73
WORLD BANK 5 3/4 96	300	[illegible]	[illegible]	8.53
WORLD BANK 7 1/8 95	500	[illegible]	[illegible]	8.28

SWISS FRANC STRAIGHTS	Issued	Bid price	Chg on week	Yield
ASIAN DEV BANK 6 10	100	94		6.55
AUSTRIA 4 5/8 93	100	[illegible]		8.62
CHUGOKU EPCO 7 3/4 95	50	101	[illegible]	7.45
COUNCIL EUROPE 4 3/4 98	250	[illegible]	[illegible]	6.70
EEC 5 1/2 00	100	[illegible]	[illegible]	6.74
EIB 5 3/4 93	100	[illegible]		6.80
ELEC DE FRANCE 7 1/4 06	100	[illegible]	[illegible]	6.75
FINLAND 5 3/8 95	150	[illegible]		6.45
GENERAL MOTORS 7 1/2 95	100	103		6.57
JAPAN DEV BK 5 1/2 94	100	97	[illegible]	6.76
NEW ZEALAND 4 7/8 99	200	[illegible]	[illegible]	6.81
QUEBEC HYDRO 5 00	100	[illegible]	[illegible]	7.01
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

WARRANTS				Prem
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
NIPPON MEAT PACKERS	17/02/95	[illegible]	[illegible]	74.74
NIPPON OIL	17/09/92	2	[illegible]	41.52
SUMITOMO CHEM	14/08/92	[illegible]	[illegible]	33.90
TOYO SASH	20/01/95	[illegible]	[illegible]	
TOYOTA MOTOR	27/09/93	[illegible]	[illegible]	30.05
UNITIKA	15/07/92	[illegible]	[illegible]	4.09
YAMANOUCHI PHARM	20/07/93	[illegible]	[illegible]	58.96
	30/06/92	[illegible]	[illegible]	35.62

STRAIGHT BONDS: Yield to redemption of the bid-price. Amount issued is expressed in millions of currency units.
FLOATING RATE NOTES: US dollars unless indicated. Margin above six-month offered rate for US dollars. C.cpn = current coupon.
CONVERTIBLE BONDS: US Dollars unless indicated. Prem = percentage premium of the current effective price of buying shares via the bond over the most recent share price.
WARRANTS: Equity warrant prem = exercise premium over current share price. Bond warrant ex yld = exercise yield at current warrant price.

Closing prices on June 21

INTERNATIONAL CAPITAL MARKETS

SYNDICATED LOANS

Banks draw breath at Grand Met deal

THE banks can't expect to have it all their own way. Interest margins may have moved strongly in their favour this year, but Grand Metropolitan, the UK leisure group, showed last week that there are still companies which do not give in to their bankers' every demands at the merest mention of the Bank for International Settlements.

Whether this marks a turning point in the cost of money to large companies remains to be seen.

Grand Met surprised the bankers with the scale of its planned financing ($2.5bn) and the price (a spread of just ⅜ per cent over Libor). The standby credit is intended to replace a $6bn facility taken out three years ago when Grand Met took over US group Pillsbury, and which expires at the end of October.

If the ⅜ per cent margin made bankers suck in breath, generous front-end fees have been added as a sweetener. Formal terms have yet to be put to the banks – these are expected to be made today – but in its soundings of the market on Friday the company is understood to have been offering to pay 27½ basis points to banks which take the maximum commitment of $150m, with 25 basis points for those coming in at $100m and 20 for those on $75m.

Over the relatively short four-year duration of the facility, this will boost the overall yield. The extra 10 basis points to be added to the margin if more than half the facility is drawn is further bait to the lenders.

They may not take it readily. Several grumbled that the fees, which include a 20 basis point commitment fee, did not make up for the spread, and that the facility was in fact renewable and could be extended to seven years. Anyway, did they need to take on assets at those sort of terms? There was concern in several quarters that, if successful, Grand Met could set a new benchmark against which other companies could lend. Then interest margins would not just have plateaued, they would have narrowed again.

Elsewhere last week, banks were content to graze on a fresh crop of syndicated deals at more healthy margins. If Grand Met was playing on the lack of demand for credit, then there was ample proof that other companies still needed their bankers and were prepared to pay what the market demanded.

No-one was complaining, for instance, about Jefferson Smurfitt's $600m revolving credit arranged by Chemical Bank and said by other bankers to have been offered at a spread of 50 basis points for the first three years and 55 for the last two. Underwritten by a panel of eight banks, it was said by others in the market to have been over-subscribed. The borrower is Smurfitt International BV, with a full guarantee from the listed parent.

Nor were there any signs of protest about BET's 300m five-year revolving credit facility, which is not underwritten. Offered in two tranches, the first 100m is at a spread of 45 basis points and the next 200m at 50 basis points, with commitment fees half the interest margin in both cases.

Nor was there any protest over Barclays' $150m facility for Evered Bardon, or Chase Investment Bank's $150m, seven-year deal for Fuerzas Electricas de Cataluña, the Spanish utility. Chase is inviting commitments at a spread of 55 basis points over Libor, with front-end fees of up to 55 basis points for large commitments of more than $10m.

Bankers were left feeling that if only Grand Met treated them with as much respect, everyone would be happy.

Richard Waters

EUROMARKET TURNOVER ($m)

Primary Market	Straights	Conv	FRN	Other
US$	1,627.6	125.0	346.1	14,039.4
Prev	470.5	52.5	208.0	12,860.1
Other	4,385.1	216.7	280.4	6,603.2
Prev	1,987.0	0.0	295.2	10,646.3
Secondary Market				
US$	18,683.7	674.2	8,508.7	9,498.2
Prev	18,457.9	813.0	7,829.9	10,812.2
Other	36,134.7	1,201.3	3,802.2	51,846.8
Prev	29,933.6	877.6	3,673.2	57,437.4

	Cedel	Euroclear	Total
US$	21,002.5	32,500.4	53,502.9
Prev	18,470.5	32,965.6	51,436.1
Other	41,288.0	63,182.4	104,470.4
Prev	39,840.8	64,949.5	104,790.3

Week to June 20, 1991 Source: AIBD

INTERNATIONAL BONDS

Markets fall out of step as economic policies diverge

WHATEVER the public pronouncements arising from the weekend's Group of Seven meeting, many bond market investors are hoping for substantive action.

For the monetary policies pursued by the industrialised countries are continuing to diverge – leading to a sharp divergence in the performance of global bond markets.

There are a number of bond market buzz-words to describe the process; decoupling and desynchronisation are the favourites. Outward signs of economic desynchronisation culminated in April, at the G-7 meeting in Washington, where US appeals for lower global interest rates were met with polite indifference.

Since then the pressures leading to decoupling of bond markets have, if anything, intensified. The steep appreciation of the dollar in the last two weeks has made an easing *of monetary conditions – and* hence bond market rallies – in Japan and Germany less likely than ever in the near term.

The other aspect of decoupling is on the foreign exchange markets. The 20 per cent rise of the dollar this year in two sudden bursts, to a high of nearly DM1.82 this week, has been a product of economic desynchronisation.

While there is nothing new in the rapid appreciation of a leading currency, such is the pull of market forces this time that central banks have so far barely intervened to arrest the rise of the dollar.

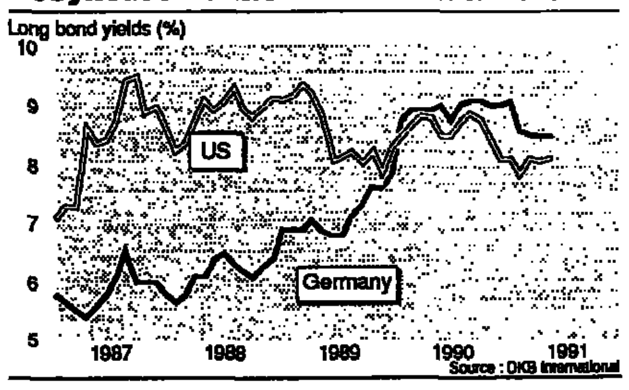
Mr Helmut Schlesinger, Bundesbank president-elect, *said in London last week he* thought it was unlikely the G-7 meeting would come up with a concrete plan to restrain the US currency. Bond markets, meanwhile, have swung in sympathy with volatile foreign exchange markets.

However, decoupling of bond markets is not a new phenom*ena. Mr Jeremy Hale, senior* international economist at Goldman Sachs in London, points to two recent periods in which the US bond market and European bond markets have moved in opposite directions.

The first was between 1982 and 1984, when Mr Paul Volcker, then chairman of the Federal Reserve, pursued a pol*icy of tight money. US 10-year* Treasury bond yields rose by 172 basis points; German yields fell by 150 basis points over the same period.

The second example is the period in mid-1989 when monetary easing had just begun in the US but European authorities were tightening policy. US 10-year yields fell by 142 basis *points, while German yields* rose by 55 basis points.

Desynchronisation of bond markets



Source: DKB International

*This time around the eco*nomic cycle Goldman Sachs predicts a substantial out-performance of German and other European bond markets over US Treasuries. In particular, there is a growing conviction among bond market analysts that the US economy is on the verge of a recovery, with a revival of inflationary pressures. Increases in non-farm payrolls, factory orders, home sales, retail sales and industrial production have raised US bond yields about 25 basis points in the past two weeks.

Yet the German economy is headed for a period of slowing growth in the *second half of* the year. German bond yields should be stable or falling by the year-end.

Mr Hale also noted that periods of active decoupling tend to be short-lived, lasting two to three months at any stretch before bond yields start to move in harness once again.

While desynchronisation of bond markets may mean *short-term gain for the oppor*tunistic, many see hidden dangers. A paper from the Group of 30, the Washington-based public policy group, said: "Global interdependence of finance has become important enough to be added permanently to the agenda on macro-economic policy co-ordination."

Mr Stephen Axilrod, author of the report and vice-chairman of Nikko Securities in New York added: "By co-ordination, I mean that the major financial powers should agree on a general approach to exchange markets and to a *domestic use of monetary and* fiscal policies that can be interpreted by capital markets as stabilising."

● The remarketing agent to State Bank of Victoria's $250m variable rate note issue is Merrill Lynch, not Salomon Brothers as stated in the FT last week.

Simon London

NEW INTERNATIONAL BOND ISSUES

Borrowers	Amount m.	Maturity	Av. life years	Coupon %	Price	Book runner	Offer yield %
US DOLLARS							
Aegon NV(d)§†	370	2001	10	7	100	Morgan Stanley Int.	7.000
Nippon Denko♦	100	1995	4	4	100	Yamaichi Int.	4.000
Oesterreichische K'Bk(e)†	300	1996	5	8¼	100⅞	JP Morgan Secs.	8.031
Sekisui House(c)‡†	200	1996	5	4½	100	Nomura Int.	4.500
Asahi Glass Co.♦	370	1998	7	5½	100	Yamaichi Int.	5.500
National Bk of Hungary†	100	1996	5	10½	97.20	Bankers Trust Int.	11.263
Hyosung (America) Inc.(i)‡†	50	1996	5	(i)	100	KEB Int.	-
Asahi Tec Corp(h)‡†	70	1995	4	4⅜	100	Nikko Secs.	4.375
Korean Devt Bank(n)†	250	1998	7	9¼	100	Merrill Lynch	9.250
ECUs							
Kingdom of Norway†	1bn	1996	5	9	99.90	Paribas Cap.Mkts.	9.026
Norsk Hydro†	150	1998	7	9⅝	101.45	Morgan Stanley Int.	9.334
STERLING							
EIB(f)‡†	200	1996	5	(f)	100	Salomon Bros.	-
Severn Trent†	125	2001	9⅔	11⅝	101.31	Baring Bros.	11.365
CANADIAN DOLLARS							
Province of Ontario†	500	1998	7	10⅝	101⅛	Deutsche Bk Cap.Mkts	10.339
FRENCH FRANCS							
Lafarge Copee(a)†	500	1994	3	zero	100	Caisse des Depots	-
Euro Disney(j)§†	3.97bn	2001	10¼	6¾	FFr140	SG Warburg Secs.	-
D-MARKS							
Shinko Shoji Co.(m)‡†	90	1995	4	4	100	Daiwa Europe GmbH	4.000
Sekisui House(c)‡†	250	1995	4	4	100	Yamaichi Bk GmbH	4.000
Asahi Glass♦	630	1995	4	4	100	WestLB	4.000
Hisamitsu Pharmaceutical♦	100	1995	4	4	100	Nikko Bk GmbH	4.000
SWISS FRANCS							
Toyo Chemical★★‡†	40	1995	-	2⅜	100	Bque.Paribas (Suisse)	2.375
Iida Construction★★†	20	1996	-	7¼	100	Dai-Ichi Kgyo.Bk	7.250
EIB(g)†	400	1998	-	6½	101¼	SBC	6.274
Arcland Sakamoto(b)★★‡†	23	1995	-	4	100	Nomura Bk (Switz)	4.040
City of Kobe†	240	2001	-	6⅜	101¼	UBS	6.204
Fuji Co.(l)★★♦	100	1998	-	3¼	100	Banca del Gottardo	3.250
Nishikawa Kasei★★†	10	1996	-	7¼	100	Banca del Gottardo	7.250
LIRE							
GTE Finance Corp†	150bn	1995	4	12⅜	101.30	Banco di Roma	11.947
Airebus Industrie G.I.E†	*150bn*	*1996*	*5*	*12¼*	*101¾*	*Banco di Napoli*	*11.767*
PESETAS							
EIB(k)†	15bn	1996	5	11.30	101.30	Banesto	10.949
DANISH KRONER							
Fin.for Danish Industry†	300	1998	5	9⅝	102	Den Danske Bank	9.109
ESCUDOS							
Council of Europe†	*10bn*	1996	5	13	*101½*	*Bco.Port.d'Investo.*	12.578
YEN							
Marubeni Invest.Corp★★†	10bn	1999	8.167	6	94¾	Daiwa Europe	6.856
Oki Electric Ind.†	20bn	1998	7¼	7¼	101.65	Yamaichi Int.	6.944
LUXEMBOURG FRANCS							
Kredietbk.Int.Fin.NV†	1.75bn	1999	8	9⅛	102	KBL	8.767
Bacob Finance NV†	500	2000	9	9⅛	101.90	Banque UCL	8.811
Trinkaus & Burkhardt†	500	1998	7	9¼	102.30	Banque Indosuez	8.796
Banque CGER France★★†	*500*	*1998*	*6½*	*9¼*	*102*	*Banque UCL*	*8.812*
Cera Bank (Lux.) SA★★†	400	1995	4	9¼	101.95	BCEE	8.653
Fin.for Danish Industry★★†	600	1994	3	9⅜	102	BGL	8.591
Merrill Lynch Inc.★★†	750	1994	3	9⅜	101⅞	Credit Europeen	8.639
Banque Paribas (Lux.)†	1bn	2000	9	9⅛	101.65	Banque Paribas (Lux.)	8.851
BFCE★★†	1bn	1994	3	9¼	101.85	KBL	8.525
CFL(o)★★†	500	1999	8	8½	100⅞	BIL	8.346
Banque UCL★★†	500	1994	2½	9⅝	101.95	Banque UCL	8.678
Prim.Ind.Bk of Aust.★★†	300	1994	3	9⅝	102.10	BGL	8.798
BIL★★†	500	2001	10	8¾	100	BIL	8.750

★★Private placement. §Convertible. ‡With equity warrants. ‡Floating rate note. ♦Variable rate notes. †Final terms. a) Repayment linked to performance of Lafarge Copee's share price. b) Put option 20/2/94 at 107½% to yield 6.668%. c) Exercise premium fixed at 2.55%. Non-callable. d) Subordinated convertible issue. Redemption price will be 122.94% of par, giving effective yield of 8.5%. Conversion premium fixed at 22.4%. e) Amount increased from $200m. Non-callable. f) Coupon pays ⅛% minus 6-month Libor with maximum of 12⅛% based on fixed upper limit of 12¼% for 6-month Libor rate. Callable at par each coupon date from July 1994. g) Issue has attached reopening clause which allows launch of further fungible issues up to SFr1.5bn within a 2 year period. h) Exercise premium fixed at 2.53%. Non-callable. i) Coupon pays 50bp over 3-month Libor. Put option in years 3 and 4 at par. Non-callable. j) International tranche = FFr2.285bn. Callable at par from 2/10/94 - 1/10/97 subject to 130% share price rule. Bonds can be redeemed at 110%. Conversion premium fixed at 19.7%. k) Matador issue. Non-callable. l) Callable 8/1/95 at 101¼% declining ¼% semi-annually. m) Exercise premium fixed at 2.61%. Non-callable. n) Yankee issue. Non-callable. o) Sinking fund from 1994 - 1998, each amounting to LFr50m. Note: Yields are calculated on AIBD basis.

WORLD STOCK MARKETS

US MARKETS (4.00 pm)

[illegible]

AUSTRIA

[illegible]

BELGIUM/LUXEMBOURG

[illegible]

DENMARK

[illegible]

FINLAND

[illegible]

FRANCE

[illegible]

FRANCE (continued)

[illegible]

GERMANY

[illegible]

GERMANY (continued)

[illegible]

ITALY

[illegible]

NETHERLANDS

[illegible]

NORWAY

[illegible]

SPAIN

[illegible]

SWEDEN

[illegible]

SWEDEN (continued)

[illegible]

SWITZERLAND

[illegible]

CANADA (4.00 pm)

[illegible]

SOUTH AFRICA

[illegible]

AUSTRALIA

[illegible]

JAPAN

[illegible]

AUSTRALIA (continued)

[illegible]

HONG KONG

[illegible]

MALAYSIA

[illegible]

SINGAPORE

[illegible]

INDICES

NEW YORK

DOW JONES	June 21	June 20	June 19	June 18	1991 HIGH	1991 LOW	Since compilation HIGH	Since compilation LOW
♦Industrials	2965.56	2953.94	2955.50	2986.81	3035.33 (3/6)	2470.30 (9/1)	3035.33 (3/6/91)	41.22 (2/7/32)
Home Bonds	94.31	90.40	94.11	94.26	95.09 (30/5)	91.30 (16/1)	95.51 (9/2/87)	54.99 (1/10/81)
Transport	1190.59	1191.82	1201.52	1219.15	1241.89 (3/6)	894.30 (7/1)	1532.01 (5/9/89)	12.32 (8/7/32)
Utilities	197.81	197.31	197.25	207.12	220.89 (16/4)	199.64 (16/1)	236.23 (2/1/90)	10.50 (8/4/32)

♦Day's High 2966.56 (2963.55) Low 2947.23 (2937.39)

STANDARD AND POOR'S

	June 21	June 20	June 19	June 18	1991 HIGH	1991 LOW	Since compilation HIGH	Since compilation LOW
Composite ‡	377.75	375.42	375.09	378.59	390.45 (17/4)	311.49 (9/1)	390.45 (17/4/91)	4.40 (1/6/32)
Industrials	450.67	447.74	447.34	451.18	463.23 (18/4)	364.90 (9/1)	463.23 (18/4/91)	3.62 (21/6/32)
Financial	30.04	29.88	29.85	30.12	31.58 (18/4)	21.96 (9/1)	35.24 (9/10/89)	8.64 (1/10/74)
NYSE Composite	206.87	205.87	205.78	207.63	213.21 (17/4)	170.97 (9/1)	213.21 (17/4/91)	4.46 (25/4/42)
Amex Mkt. Value	365.36	364.33	364.73	367.40	373.40 (18/4)	296.72 (14/1)	397.03 (10/10/89)	29.31 (9/12/72)
NASDAQ Composite	485.82	485.88	485.36	491.59	511.31 (17/4)	355.75 (14/1)	511.31 (17/4/91)	54.87 (31/10/72)

	June 14	June 7	May 31	year ago (approx.)
Dow Industrial Div. Yield	3.03	3.05	2.99	3.67

	June 19	June12	June 5	year ago (approx.)
S & P Industrial div. yield	2.80	2.79	2.73	2.93
S & P Indl. P/E ratio	18.85	18.91	19.34	16.87

NEW YORK ACTIVE STOCKS

Friday	Stocks traded	Closing price	Change on day
Columbia Gas	3,552,100	17	- 1¼
Telefonos	3,180,500	25¾	- ¼
IBM	3,131,800	99⅝	+ ½
Pepsico	2,978,400	30	.....
Am T & T	2,728,900	38	+ ⅛
Philip Morris	2,606,600	65	- ⅜
Boeing	2,531,000	47	- 1⅛
Exxon	2,472,500	58½	+ ¼
Waste Man	2,266,600	37⅝	+ ⅛
Gen Motors	2,075,800	44⅝	+ ½

TRADING ACTIVITY

† Volume Millions	June 21	June 20	June 19
New York	193.110	163.821	156.070
Amex	9.635	10.745	10.889
NASDAQ	(u)	143.921	150.832
Issues Traded	2,050	2,041	2,029
Rises	822	658	398
Falls	687	855	1,165
Unchanged	541	528	466
New Highs	26	21	14
New Lows	16	15	25

CANADA

TORONTO	Jun 21	Jun 20	Jun 19	Jun 18	1991 HIGH	1991 LOW
Metals & Minerals	3204.60	3226.20	3218.50	3235.87	3284.18 (5/3)	2632.06 (9/1)
Composite	2516.80	3527.32	3529.47	3549.87	3582.07 (7/6)	3161.95 (15/1)
MONTREAL Portfolio	1858.88	1865.86	1867.80	1884.47	1903.86 (7/6)	1686.89 (9/1)

Base values of all indices are 100 except NYSE All Common – 50; Standard and Poor's – 10; and Toronto Composite and Metals – 1000. Toronto indices based 1975 and Montreal Portfolio 4/1/83. † Excluding bonds. ‡ Industrial, plus Utilities, Financial and Transportation (c) Closed. (u) Unavailable.

	June 21	June 20	June 19	June 18	1991 HIGH	1991 LOW
AUSTRALIA						
All Ordinaries (1/1/80)	1512.1	1503.4	1519.1	1523.0	1558.3 (29/4)	1284.5 (16/1)
All Mining (1/1/80)	656.4	653.0	662.1	665.9	680.1 (29/4)	561.6 (16/1)
AUSTRIA						
Credit Aktien (30/12/84)	510.76	509.96	511.77	513.01	534.81 (16/4)	390.84 (15/1)
BELGIUM						
BEL20 (1/1/91)	1166.30	1169.14	1171.76	1180.63	1212.15 (17/4)	917.59 (17/1)
DENMARK						
Copenhagen SE (3/1/83)	(u)	367.80	366.93	365.08	367.80 (20/6)	302.26 (8/1)
FINLAND						
HEX General (28/12/90)	(c)	1007.3	1016.3	1021.7	1186.9 (8/4)	890.5 (23/1)
FRANCE						
CAC General (31/12/82)	479.10	478.09	482.77	485.15	494.95 (12/6)	394.88 (15/1)
CAC 40 (31/12/87)	1806.63	1793.65	1798.19	1830.63	1874.81 (11/6)	1425.26 (15/1)
GERMANY						
FAZ Aktien (31/12/58)	715.76	708.45	707.55	710.16	717.43 (17/6)	570.48 (15/1)
Commerzbank (1/12/53)	2022.7	2001.9	2000.6	2009.3	2035.2 (31/5)	1612.5 (15/1)
DAX (30/12/87)	1711.86	1687.03	1683.03	1695.42	1715.80 (11/6)	1311.82 (16/1)
HONG KONG						
Hang Seng Bank (31/7/64)	3565.14	3593.38	3626.13	(c)	3917.89 (20/5)	2984.01 (16/1)
IRELAND						
ISEQ Overall (4/1/88)	1362.68	1365.20	1374.06	1380.86	1520.65 (15/3)	1114.86 (25/1)
ITALY						
Banca Com. Ital. (1972)	592.74	606.63	606.54	612.32	619.38 (3/6)	486.26 (29/1)
JAPAN						
Nikkei (16/5/49)	24275.08	24082.26	23996.75	24685.47	27146.91 (18/3)	22442.70 (16/1)
Tokyo SE (Topix) (4/1/68)	1873.84	1861.85	1855.59	1898.18	2028.85 (18/3)	1625.00 (17/1)
2nd Section (4/1/68)	3297.32	3278.58	3281.66	3327.24	3423.45 (10/5)	2473.52 (24/1)
MALAYSIA						
KLSE Composite (4/4/86)	624.44	623.20	628.04	630.23	635.82 (29/5)	470.41 (16/1)
NETHERLANDS						
CBS Ttl.Rtn.Gen.(End 1983)	281.2	279.1	280.3	283.5	284.8 (5/6)	221.4 (16/1)
CBS All Shr (End 1983)	200.3	198.9	199.7	202.0	203.1 (5/6)	162.3 (16/1)
NORWAY						
Oslo SE (Ind) (2/1/83)	778.72	773.41	773.96	770.06	792.13 (4/6)	610.45 (21/1)
PHILIPPINES						
Manila Comp (2/1/85)	1082.62	1101.16	1113.36	1086.87	1183.40 (29/5)	582.64 (10/1)
SINGAPORE						
SES All-Singapore (2/4/75)	406.21	406.19	409.03	411.97	422.43 (26/4)	315.07 (16/1)
SOUTH AFRICA						
JSE Gold (28/9/78)	1373.0	1382.0	1369.0	1371.0	1416.0 (10/6)	971.0 (25/2)
JSE Industrial (28/9/78)	3900.0	3911.0	3891.0	3786.0	3911.0 (20/6)	2829.0 (16/1)
SOUTH KOREA**						
Korea Comp Ex. (4/1/80)	597.69	(c)	604.27	606.79	697.62 (4/1)	597.69 (21/6)
SPAIN						
Madrid SE (30/12/85)	278.50	277.48	279.67	283.30	289.22 (18/3)	213.70 (14/1)
SWEDEN						
Affarsvarlden Gen. (1/2/37)	(c)	1136.9	1137.8	1135.2	1137.8 (19/6)	808.4 (8/1)
SWITZERLAND						
Swiss Bank Ind. (31/12/58)	760.2	756.8	758.2	763.9	766.1 (31/5)	590.4 (14/1)
SBC General (1/4/87)	629.2	627.0	627.8	631.9	638.0 (31/5)	487.1 (14/1)
TAIWAN**						
Weighted Price (30/6/66)	6033.24	5976.14	6029.78	6024.40	6305.22 (9/5)	3316.26 (15/1)
THAILAND						
Bangkok SET (30/4/75)	773.54	773.83	792.64	805.90	908.13 (19/4)	582.48 (16/1)
WORLD						
M.S. Capital Intl.(1/1/70) ($)	495.3*	494.4	491.1	496.1	529.2 (17/4)	439.1 (16/1)

**Saturday June 15: Taiwan Weighted Price: 5925.19 Korea Comp Ex. 603.97.
‡ Subject to official recalculation. *Calculated at 15.00 GMT.
Base values of all indices are 100 except: BEL20, HEX General, ISEQ Overall and DAX – 1,000, JSE Gold – 255.7, JSE 26 Industrials – 264.3 and Australia All Ordinary and Mining – 500; (c) Closed. (u) Unavailable.

Price data supplied by Telekurs.

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AUTHORISED UNIT TRUSTS

Abbey Unit Tst Mngrs (1000)H
80 Holdenhurst Rd, Bournemouth 0345 717373

Unit Name	Init Chrge	Canc. Price	Bid Price	Offer Price	Yield Gr's	City-line
High Income						
American Income	6	49.34	49.34	52.98	4.55	40000
Gilts & Fixed Int	6	110.3	110.9xd	117.0	9.85	40001
High Inc Equity	6	133.6	137.4	146.3	5.82	40002
Worldwide Bond	6	209.1	209.1xd	221.6	6.77	40003
Capital Growth						
American Growth	6	202.3	202.3	216.3	1.01	40004
Asian Pacific	6	133.3	136.1	144.7	1.09	40005
Assets & Earnings	6	171.8	175.6xd	186.8	3.08	40006
Capital Reserve Acc	0	105.0	105.0	105.1	7.22	40007
Capital Reserve Inc	0	83.01	83.01	83.07	7.22	47580
Commodity & Energy	6	79.14	79.14	84.64	1.76	40008
1992 Enterprise	6	62.90	64.44	68.35	2.32	[illegible]
Euro Capital Acc	6	90.33	90.33	96.60	1.40	40009
Euro Capital Inc	6	86.30	86.30	92.29	1.41	47581
General	6	166.5	166.5	178.0	2.81	40010
Japan	6	101.7	101.7	108.7	–	40011
Masterrust	6	89.03	89.03	95.21	2.14	40012
UK Growth Acc	6	155.9	155.9	166.7	2.72	40013
UK Growth Dist	6	100.2	100.2	107.1	2.74	40014
US Emerging Cos	6	68.23	68.23	72.97	–	40015
Income & Growth	6	295.0	295.0xd	313.5	4.44	40016
Ethical	6	48.58	48.58xd	51.95	3.29	40017

Bishopsgate Progressive Mgmt Co (1200)F
15 St James' Place, London SW1A 1NW 071-493 8111

Unit Name	Init Chrge	Canc. Price	Bid Price	Offer Price	Yield Gr's	City-line
Progressive Inc	5	19.34	19.34	20.41	1.13	40168
Progressive Acc	5	29.15	29.15	30.77	1.13	40169
International Inc	5	20.22	20.22	21.34	1.29	40170
International Acc	5	26.87	26.87	28.36	1.29	40171
Cap & Foreign Inc	5	233.3	233.3	246.2	0.94	40173
Cap & Foreign Acc	5	278.8	278.8	294.2	0.94	40174
Special Sits Inc	5	209.3	209.3	220.9	1.48	40175
Special Sits Acc	5	227.3	227.3	239.9	1.48	40176
PEP Inc	5	134.7	137.1	144.7	1.10	47667
PEP Acc	5	143.8	146.4	154.5	1.10	47668
Growth Inc	5	82.16	82.16	86.73	0.93	45243
Growth Acc	5	82.50	82.50	87.07	0.93	45244

Brewin Dolphin Unit Tst Mgrs Ltd (0905)F
5 Giltspur St, London EC1A 9DE 071-236 6441

Unit Name	Init Chrge	Canc. Price	Bid Price	Offer Price	Yield Gr's	City-line
Dolphin Special Sits	5½	126.2	126.2	134.9	0.45	40177
Dolphin Dividend	5½	60.79	60.79	65.01	6.06	40178
Dolphin Int Inc & Gth	5½	159.1	159.1	170.1	3.67	40179
Dolphin UK & Gen	5½	32.74	33.02	35.31	3.17	45854
Dolphin Fund of Fnds	5½	47.55	49.59	53.03	2.83	45640

Britannia Life Unit Managers Ltd (1200)F
190 West George St, Glasgow G2 2PR 041-332 3132

Unit Name	Init Chrge	Canc. Price	Bid Price	Offer Price	Yield Gr's	City-line
Balanced Growth	6	73.99	74.93	80.14	3.15	40427
Do (Accum)	6	78.36	79.35	84.87	3.15	40428
Service Cos	6	62.07	62.07	66.39	2.45	40433
Do (Accum)	6	65.30	65.30	69.84	2.45	40434
Income Growth	6	43.11	43.11xd	46.10	4.36	40432
Do (Accum)	6	60.87	60.87	65.10	4.36	40432
Higher Yield	6	32.34	32.34	34.59	4.49	40429
Do (Accum)	6	40.52	40.52	43.34	4.49	40430
American Sm Inc	6	31.46	31.46	33.65	1.31	40423
Do (Accum)	6	32.06	32.06	34.29	1.31	40424
European Growth	6	26.74	26.74	28.60	1.55	40425

Maiden Unit Trust Managers Ltd (1400)F
15 St Botolph St, London EC3A 7EE 071 236 6066

Unit Name	Init Chrge	Canc. Price	Bid Price	Offer Price	Yield Gr's	City-line
Maiden General	0	116.2	116.2xd	119.3	4.88	46659

Manulife Management Ltd (1200)H
St George's Way, Stevenage Dealings: 071-256 5858

Unit Name	Init Chrge	Canc. Price	Bid Price	Offer Price	Yield Gr's	City-line
Growth Units	5¼	130.8	130.8	139.1	4.73	40905
Gilt & Fxd Int	5	140.6	140.6	147.9	8.73	40906
Intl Growth	5¼	151.2	152.6xd	162.5	0.42	40908
North American	5¼	98.42	99.43	106.2	0.37	40910
Far East	5¼	120.9	122.0xd	129.8	0.36	40911
UK Smaller Cos	5¼	105.1	105.1xd	111.8	3.23	40909
European	5¼	54.90	54.90xd	58.54	1.09	40912
Japanese Growth	5¼	37.90	37.90	40.56	0.00	47786
Managed P'folio	5¼	49.46	49.91xd	53.10	1.76	47787
High Income	5¼	146.4	148.3	157.8	6.14	40906
High Yielding Gilt	5¼	60.79	60.79xd	64.08	9.61	40907
Cash		50.98	50.98	50.98	10.30	46063

Geoffrey Morley Unit Mgrs Ltd (1200)F
3 Bedford Park, Croydon CR0 2AQ 081-686 9818

Unit Name	Init Chrge	Canc. Price	Bid Price	Offer Price	Yield Gr's	City-line
Exempt Unit Tst	4	117.14	117.14	124.91	2.60	41051
Exempt Smllr Cos	3¼	223.46	223.46	242.97	1.49	41053

Guide to pricing of Authorised Unit Trusts

Compiled with the assistance of Lautro §§

INITIAL CHARGE: Charge made on sale of units. Used to defray marketing and administrative costs, including commission paid to intermediaries. This charge is included in the price of units.

OFFER PRICE: Also called issue price. The price at which units are bought by investors.

BID PRICE: Also called redemption price. The price at which units are sold back by investors.

CANCELLATION PRICE: The minimum redemption price. The maximum spread between the offer and bid prices is determined by a formula laid down by the government. In practice, most unit trust managers quote a much narrower spread. As a result, the bid price is often set above the cancellation price. However, the bid price might be moved to the cancellation price by the managers at any time, usually in circumstances in which there is a large excess of sellers of units over buyers.

TIME: The time shown alongside the fund manager's name is the time of the unit trust's valuation point unless another time is indicated by the symbol alongside the individual unit trust name. The symbols are as follows: (♥) - 0001 to 1100 hours; (♦) - 1101 to 1400 hours; (♣) - 1401 to 1700 hours; (♠) - 1701 to midnight. Daily dealing prices are set on the basis of the valuation point; a short period of time may elapse before prices become available.

HISTORIC PRICING: The letter H denotes that the managers will normally deal on the price set on the most recent valuation. The prices shown are the latest available before publication and may not be the current dealing levels because of an intervening portfolio revaluation or a switch to a forward pricing basis. The managers must deal at a forward price on request, and may move to forward pricing at any time.

FORWARD PRICING: The letter F denotes that the managers deal at the price to be set on the next valuation. Investors can be given no definite price in advance of the purchase or sale being carried out. The prices appearing in the newspaper are the most recent provided by the managers.

SCHEME PARTICULARS AND REPORTS: The most recent report and scheme particulars can be obtained free of charge from fund managers.

Other explanatory notes are contained in the last column of the FT Managed Funds Service.

§§ Life Assurance and Unit Trust Regulatory Organisation.
Centre Point,
103 New Oxford Street, London WC1A 1QH
Tel: 071 – 379 – 0444.

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Unit Name	Init Chrge	Canc. Price	Bid Price	Offer Price	Yield Gr's	City-line
Stewart Ivory Unit Tst Mgrs Ltd (1200)H						
45 Charlotte Sq, Edinburgh 031-226 3271						
American ♥	5	305.0	305.0	325.0	1.32	41410
(Accum Units) ♥	5	356.8	356.8	381.1	1.32	41411
British	5	785.1	785.1	830.6	5.97	41416
(Accum Units)	5	1256.9	1256.9	1329.7	5.97	41417
European	5	331.2	331.2	352.8	1.50	41418
(Accum Units)	5	355.0	355.0	378.2	1.50	41419
Japan	5	125.1	125.1	133.0	—	41420
(Accum Units)	5	126.1	126.1	134.0	—	41421
New Pacific	5	174.1	174.1	185.0	1.96	46365
(Accum Units)	5	178.2	178.2	189.4	1.96	47984
PEP June 19 ♦	5	131.9	134.4	142.3	3.54	47988
Mngd Equity	5	121.9	123.7	130.9	3.55	47586
Mngd Equity Acc	5	126.1	128.0	135.4	3.55	48036
Mngd Cash	5	97.25	97.25	102.1	11.36	47985
(Accum Units)	5	112.7	112.7	118.3	11.36	40207
Mngd Fixed Int Acc June 19	5	119.3	119.3	126.2	6.61	42132
Majority Stlg	1	101.19	101.19	102.19	10.97	42705
Majority Stlg Acc	1	104.02	104.02	105.05	10.97	46689
Storebrand Intl Inv Mngrs Ltd (1200)F						
Admin: 5 Rayleigh Rd, Hutton, Brentwood, Essex						
Enquiries 0277 227300 Dealing 0277 261010						
International June 14	0	51.62	51.62	51.99	3.42	46406
Sun Alliance Unit Tst Mngmt Ltd (1200)F						
Sun Alliance House, Horsham 0403 56293						
Equity	6	584.8	592.6	633.8	3.45	41423
North America	6	79.78	79.78	85.33	1.02	41424
Far East	6	97.89	97.89	104.7	0.94	41425
W'wide Bond	6	47.24	47.24	50.26	5.92	41426
W'wide Fincl (Sect)	6	35.71	35.71	37.84	0.67	41427
W'wide Tech (Sect)	6	43.35	43.35	45.94	5.94	41428
European	6	67.47	67.87	72.54	1.42	41429
Equity Income	6	67.84	68.77xd	73.55	5.18	41430
Portfolio	6	58.30	58.30	62.35	2.43	41431
Sun Life of Canada Unit Mgrs Ltd (1000)H						
Basingstoke, Basingstoke, Hants 0800 525725						

	Bid Price	Offer Price	Yield Gross	City-line
Edinburgh Fund Mngrs PLC				
Exempt Funds				
American June 19	166.4	171.0	1.46	40368
Managed June 19	144.9	150.3	3.83	40369
Japan June 20	120.0	124.1xd	0.08	40370
Sml Jap Cos June 21	605.1	621.7	0.10	40372
Fidelity Investment Services Ltd				
Mngd Pens P'folio	129.0	133.3	3.73	46885
Robert Fleming Asset Mngmt Ltd				
Am Exempt	£485.86	491.03	1.56	40456
Gen Exempt	£129.77	132.65	3.82	40457
Jap Exempt	£493.90	503.68	0.78	40458
Pacific Exempt	£102.39	104.56	3.01	46888
Cont'l Euro Exempt	£98.27	100.22	2.09	47674
Indexed Exempt June 20	£125.72	128.85	5.03	46886
Amer Indxd Exmpt June 20	£106.52	107.38	2.83	47673
Japan Indxd Exmt June 20	£66.00	67.34	0.63	47676
Euro Indxd Exmt June 20	£98.57	100.55	2.80	47675
O'seas Indxd Exmt June 20	£101.44	103.68	2.22	46887
Funds in Court*				
Capital June 19	497.29	500.94	2.45	40505
Gross June 19	176.55	177.97xd	10.96	40506
High Yield June 19	290.78	293.12	7.03	40507
* Restricted to monies under Court control				
Henderson Unit Trust Management Ltd				
Pensions Mngd	52.32	53.38	3.85	40676
INVESCO MIM Management Ltd				
Exempt Funds				
Intl Mngd P'Folio	1241.0	1340.0	—	46984
Mngd Pens (Acc)	68.0	72.5	—	41007
Lazard Brothers & Co. Ltd				

INSURANCES

OTHER UK UNIT TRUSTS

Continued on next page

هكذا من الأصل

FT MANAGED FUNDS SERVICE

● Current Unit Trust prices are available on FT Cityline. Calls charged at 45p per minute peak and 34p off peak, inc VAT. To obtain your free Unit Trust Code Booklet ring (071) 925-2128.

	Bid Price	Offer Price	Yield Gross	City-line
Shield Assurance Ltd				
40 Uxbridge Rd, W5 2BS. 081-567 0700				
Gartmore Mngd	124.5	131.0	-	43997
Farrington Mngd Life	99.0	104.2	-	-
Henderson Mngd Life	94.9	99.8	-	-
Brunel Life	116.5	122.6	-	46755
Secure Life	114.4	120.5	-	43999
Gartmore Pens Mngd	130.5	137.3	-	43998

	Bid Price	Offer Price	Yield Gross	City-line
Swiss Life (UK) PLC				
101 London Rd, Sevenoaks 0732 450161				
Group Pension Funds				
Equity Managed	£426.91	448.11	-	44302
Fixed Int Managed	£241.15	242.36	-	44303
Property Managed	£276.97	285.53	-	44305
Mixed Managed	£324.02	334.04	-	44307
Cash Managed	£242.37	242.37	-	44306
International Mngd	£193.03	199.00	-	44308
Europe Managed	£97.87	100.89	-	47919
Index Tracking Mngd	£101.67	107.02	-	47920

	Bid Price	Offer Price	Yield Gross	City-line
CMI Insurance Co Ltd – Contd.				
Nordic Equity	£0.4450	0.4790	-	44850
Benelux Equity	£0.4510	0.4850	-	44995
Dollar Funds				
Am/Latin Equity	$0.5380	0.5790	-	45317
Canadian Equity	$0.4620	0.4970	-	46336
Japanese Equity	$0.5080	0.5470	-	45319
US Equity	$0.4650	0.5010	-	46337
SE Asia Equity	$0.5510	0.5930	-	49429
US Bond	$0.4700	0.5060	-	45498
Japan Bond	$0.4330	0.4660	-	45502
US$ Currency Reserve	$0.4750	0.5110	-	45083

	Bid Price	Offer Price	Yield Gross	City-line
ECU Futures Plc				
ECU Gross Fund	144.0		-	43354
ECU Royden	121.0		-	44713
Edinburgh Money Management Ltd				
42a Charlotte Square, Edinburgh EH2 4HQ 031 220 1244				
Select Portfolio	128.8	30.41	-	46833
Fairmount Financial Services Ltd				
Fairmount Hse, Bull Hill, Leatherhead 0372 370000				
Secure	105.7		-	43081
Growth	104.0		-	42702

Hambros Fd Mgrs (CI) Ltd

PO Box 255, Guernsey 0481 715454

OFFSHORE INSURANCES

MANAGEMENT SERVICES

OFFSHORE AND OVERSEAS

BERMUDA (SIB RECOGNISED)

CANADA (SIB RECOGNISED)

GUERNSEY (SIB RECOGNISED)

GUERNSEY (REGULATED)(**)

FT MANAGED FUNDS SERVICE

● Current Unit Trust prices are available on FT Cityline. Calls charged at 45p per minute peak and 34p off peak, inc VAT. To obtain your free Unit Trust Code Booklet ring (071) 925-2128.

	Bid Price	Offer Price	Yield Gross	City-line
U.S. Treasury Securities Fund Ltd				
Short Term Shares	$764.58		–	45903
Fixed Income Shares	$887.39		–	45904
Yamaichi Capital Mangmt (Guernsey) Ltd				
Japan Mega Growth	$10.31		–	46000
Yamaichi ISS Fund	$7.71		–	46591
Yamaichi CB Plus Fund	$8.13		–	47335
Thai New Fund	$10.34		–	46493
Yamaichi OTC Equity Ltd	$9.70		–	–

IRELAND (SIB RECOGNISED)

Unit Name	Init Charge	Canc. Price	Bid Price	Offer Price	Yield Gr's	City-line
GAM Fund Management Ltd (u)						
29 Kildare Street, Dublin						010 353 1760 630
GAM Universal US $Dr Acc		$–	108.73		–	40337
GAM Universal US $Dr Inc		$–	108.73		–	40340
GAM Universal DM Acc		DM–	119.87		–	40341
GAM Universal DM Inc		DM–	119.87		–	40342
MI Global Asset Mngmt Co Ltd "MI Trusts"						
MI Global Dollar		$–	0.97	1.04	–	40341

IRELAND (REGULATED)(**)

	Bid Price	Offer Price	Yield Gross	City-line
Bank of Ireland Unit Managers Ltd				
Global Scan	59.52	9.80	–	43795
European Bond	[illegible]	[illegible]	–	45532
Investor Portfolio				
EquityAmerica	$11.72	12.44	–	46343

ISLE OF MAN (SIB RECOGNISED)

ISLE OF MAN (REGULATED)(**)

JERSEY (SIB RECOGNISED)

Unit Name	Init Charge	Canc. Price	Bid Price	Offer Price	Yield Gr's	City-line
John Govett – Contd.						
Far East Equity	5½	$10.86	10.86	10.98	1.0	47288
US Smaller Cos	5½	$12.45	12.45	12.59	1.0	47289
European Equity	5½	[illegible]	14.04	14.19	2.0	47290
UK High Income	5	£4.77	4.77	4.80	10.7	47291
UK Equity	5½	£4.77	4.77	4.82	3.0	47292
Initial charge may alter for sales in other jurisdictions						
Hill Samuel Fund Mgrs (Jsy) Ltd (1080)F						
PO Box 63, Bond Street, St. Helier, Jersey						0534 76029
INVESCO MIM International (Jersey) Ltd						
PO Box 271, St Helier, Jersey						0534 73114
Lloyds Bank (CI) U/T Mgrs.						
PO Box 195, St Helier, Jersey						0534 27561
Dealing daily						
Midland Bank Fund Managers (Jersey) Ltd						
PO Box 26, St Helier, Jersey						0534 606000

JERSEY (REGULATED)(**)

LUXEMBOURG (SIB RECOGNISED)

LUXEMBOURG (REGULATED)(**)

SWITZERLAND (SIB RECOGNISED)

OTHER OFFSHORE FUNDS

هكذا من الأصل

CURRENCIES, MONEY AND CAPITAL MARKETS

MONEY MARKETS

Peseta storm calms

THE ABRUPT fall in the peseta last week rippled through the Exchange Rate Mechanism, weakening sterling and delaying any early easing in monetary policy in France and the UK.

UK clearing bank base lending rate 11.5 per cent from May 24, 1991

The immediate cause of the peseta's decline were reports that there was scope for interest rate reductions if a productivity pact could be agreed with the trade unions.

Further pressure came after suggestions that the Spanish monetary authorities wanted to move the peseta to the narrow 2¼ per cent band within the ERM.

The suspicion in the foreign exchange market was that the Spanish authorities were attempting a managed devaluation of the peseta in advance of a move to the narrow band. Mr Christian Dimis, economist at Chemical Bank in London, believed that this was a misreading of the government's intentions.

Nevertheless, the outcome was a massive wave of peseta selling with international fund managers scrambling to unwind large D-Mark/peseta positions.

Last week, there were signs of near-panic selling of pesetas. Bond yields climbed and calm was not restored until the Bank of Spain firmly intervened in the currency markets.

By the end of the week, calm had returned. Many analysts now believe the Bank will not be able to reduce interest rates until there is further progress on controlling inflation and money supply growth, which may not be until the autumn.

In the meantime, the negotiations over the productivity pact could provide scope for further upsets. In any case, a move to the narrow ERM band is unlikely until Spanish inflation is closer to the European Community average. Few analysts expect that will take place until later next year.

£ IN NEW YORK

Jun 21	Close	Previous Close
£ Spot	1.6245-1.6255	1.6340-1.6350
1 month	0.73-0.72pm	0.73-0.72pm
3 months	2.03-2.00pm	2.02-1.99pm
12 months	5.70-5.65pm	5.75-5.65pm

Forward premiums and discounts apply to the US dollar

STERLING INDEX

[illegible]

CURRENCY RATES

[illegible]

CHICAGO

[illegible]

CURRENCY MOVEMENTS

Jun 21	Bank of England Index	Morgan Guaranty Changes %
Sterling	89.7	-21.5
U.S Dollar	67.9	-10.8
Canadian Dollar	107.0	+3.9
Austrian Schilling	108.2	+10.9
Belgian Franc	109.7	-3.0
Danish Krone	107.3	+2.3
D-Mark	115.7	+22.7
Swiss Franc	118.1	+19.3
Dutch Guilder	112.4	+14.8
French Franc	[illegible]	[illegible]
Lira	[illegible]	[illegible]
Yen	[illegible]	[illegible]

OTHER CURRENCIES

[illegible]

POUND SPOT - FORWARD AGAINST THE POUND

[illegible]

DOLLAR SPOT - FORWARD AGAINST THE DOLLAR

[illegible]

EXCHANGE CROSS RATES

[illegible]

EURO-CURRENCY INTEREST RATES

[illegible]

FT LONDON INTERBANK FIXING

[illegible]

MONEY RATES

[illegible]

LONDON MONEY RATES

[illegible]

LONDON RECENT ISSUES

EQUITIES

[illegible]

FIXED INTEREST STOCKS

[illegible]

RIGHTS OFFERS

[illegible]

BANK OF ENGLAND TREASURY BILL TENDER

[illegible]

WEEKLY CHANGE IN WORLD INTEREST RATES

TOKYO					
One month Bills	7⅛	+1/16	One mth. Interbank	9⅛	+⅛
Three month Bills	7⅛	+1/16	Three month	9⅛	+⅛
BRUSSELS			MILAN		
One month	9	-1/16	One month	11⅛	+⅛
Three month	9⅛	Unch'd	Three month	11⅛	Unch'd
AMSTERDAM			DUBLIN		
One month	9.08	-0.04	One month	10⅛	Unch'd
Three month	9.12	-0.055	Three month	10⅛	-⅛

MONEY MARKET FUNDS

Money Market Trust Funds

[illegible]

Money Market Bank Accounts

[illegible]

NOTES– Gross: Contractual rate of interest payable, not taking account of the deduction of basic rate income tax. Net: Rate of interest payable after allowing for deduction of basic rate income tax. Gross CAR: Gross rate annualised to take account of compounding of interest paid other than once a year, 'Compounded Annual Rate'. Int Cr: Frequency at which interest is credited to the account.

FINANCIAL TIMES STOCK INDICES

	June 21	June 20	June 19	June 18	June 17	June 14	1991 High	1991 Low	Since Compilation High	Since Compilation Low
Government Secs.	83.79	83.81	83.75	83.66	83.68	83.83	85.88	82.17	127.4	49.18
Fixed Interest	92.86	92.85	92.85	92.90	92.97	92.94	94.84	90.59	105.4	50.53
Ordinary	1947.3	1943.7	1948.3	1971.9	1977.6	1976.3	2014.5	1606.3	2014.5	49.4
Gold Mines	203.9	207.0	199.5	198.4	197.2	201.8	209.1	127.0	734.7	43.5
FT-Act All Share	1195.23	1192.43	1194.58	1208.44	1211.78	1211.83	1232.32	987.46	1238.57	61.92
FT-SE 100	2487.5	2479.9	2484.7	2516.0	2524.0	2522.3	2545.3	2054.8	2545.3	136.9
FT-SE Eurotrack 100	1141.29	1131.17	1131.81	1148.56	1149.39	1152.21	1165.54	900.45	1165.54	900.45
FT-SE Eurotrack 200	1169.66	1162.33	1162.89	1176.07	1178.69	1181.89	1192.11	938.62	1192.11	938.62

LONDON SHARE SERVICE

BRITISH FUNDS

"Shorts" (Lives up to Five Years)

[illegible]

BRITISH FUNDS—Contd

[illegible]

INT. BANK AND O'SEAS

[illegible]

CORPORATION LOANS

[illegible]

COMMONWEALTH & AFRICAN LOANS

[illegible]

LOANS

Building Societies

[illegible]

Public Board and Ind.

25 Met. Wtr. 3pc 'B' ... 52 ... 1.8 1Mar 1Sep 1361

FOREIGN BONDS & RAILS

Amount £m	Stock	Price £	Wk % change	Yld	Last xd	Interest Paid	City-line
7	Greek 7pc Ass.	58	.....	7.00	1.11	1May 1Nov	2763
4	Do. 6pc 28 Stb. Ass.	50	.....	6.00	1.2	1Feb 1Aug	2762
–	Do 4pc Mixed Ass.	58	.....	4.00	3.4	1Apr 1Oct	2761
1	Hung. '24 Ass.	55	.....	3.57	3.5	1May	2935
40	[illegible] 2011	123¾	-0.2	11.84	27.10	31May 30Nov	–

Continued on next page

BASE LENDING RATES

[illegible]

FT-ACTUARIES WORLD INDICES

Jointly compiled by The Financial Times Limited, Goldman, Sachs & Co., and County NatWest/Wood Mackenzie in conjunction with the Institute of Actuaries and the Faculty of Actuaries

[illegible]

Base values: Dec 31, 1986 = 100; Finland: Dec 31, 1987 = 115.037 (US $ Index), 90.791 (Pound Sterling) and 94.94 (Local); Nordic: Dec 30, 1988 = 139.65 (US $ Index), 114.45 (Pound Sterling) and 123.22 (Local).
Copyright, The Financial Times Limited, Goldman, Sachs & Co. and County NatWest Securities Limited. 1987.
The following constituent change took place during the week ending 21/6/91: Name Change: Semi Technology to Semi-Tech (Global) (Hong Kong).
Markets closed 21/6/91: Finland and Sweden.

LONDON SHARE SERVICE

● For Latest Share Prices on any telephone ring direct-0836 43 + four digit code (listed below). Calls charged at 45p per minute peak and 34p off peak, inc VAT

AMERICANS

Market Cap. £m	Stock	Price £	Week % change	Y'ld Gr's	Last xd	Dividends Paid	City-line
13,590.1	Abbott Laboratories[illegible]	31¼	3.3	1.9	10.4	Fb My Ag Nv	1503
158.0	Allegheny & W 1c	384p	-5.3	5.8	–	–	–
1,068.6	Amdahl 5c	959p	-2.4	0.6	31.1	Mr Mr Jn Ag	–
3,748.3	Amer. Cyanamid $5	40	1.9	2.2	27.2	Mr Jn Se De	–
6,774.6	Amer. Express 60c	14⅞	-2.9	3.8	31.12	Fb My Ag Nv	1594
25,375.1	American T. & T. $1	23⅛	3.1	3.4	27.3	Fb My Ag Nv	1597
15,105.6	Ameritech $1	34½	-1.4	5.4	28.3	Fb My Ag Nv	–
5,022.8	BankAmerica $1	23⅞	2.2	3.0	16.5	Fe My Sp De	1744
2,645.1	Bankers N Y $1	32⅛	-1.7	8.8	27.9	Ap Jy Oc Ja	1745
18,911.8	Bell Atlantic $1	27⅛	-1.3	5.0	4.7	Fe My Au No	–
13,656.0	BellSouth Corp	28⅛	-0.4	5.5	5.4	Fe My Au No	–
787.1	Bethlehem Steel $8	10⅞	3.8	2.3	6.2	Mar Jun S D	1821
638.3	Bowater Inc.	1780p	-1.8	4.0	6.6	Oc Ja Ap Jy	1884
788.9	Brunswick 75c	8[illegible]	0.7	2.9	7.5	F My Au N	1989
3,974.7	CPC Intnl. 25c	52⅛	-0.5	2.2	26.6	Jan Ap Jy Oct	2263
130.5	California Engy	717p	-1.3	–	–	–	–
5,696.7	Campbell Soup 15c	45	-1.0	1.5	4.1	Oc Ja Ap Jy	2050
1,509.7	Chase Manhattan $12½	11[illegible]	-7.4	6.1	26.4	Fb Mr Ag Nv	2109
1,896.8	Chrysler $6¼	8[illegible]	-2.2	4.2	19.6	Apr Jul S D	2135
3,323.1	Citicorp $1	9[illegible]	-3.7	6.0	23.10	My Au N F	2141
3,116.3	Colgate-Palmolive $1	23½	-3.6	2.7	17.5	F My Au N	2184
806.4	Cont'l Bank Corp $4	798p	-3.7	7.4	31.5	Oc Mr Jn Sp	–
840.8	Dana Corp. $1	20½	-0.6	4.6	28.5	Mr Jn Se De	2306
253.9	Data General	920p	-4.9	–	–	–	–
860.5	Dial Corp $1.5	21⅞	-0.3	3.8	28.5	Ja Ap Jy Oc	2778
5,205.2	Dun & Bradstreet $1	29⅛		4.4	13.2	Mr Jn Sp Dc	–
1,307.3	Eaton Corpn 50c	38½	3.0	–	2.2	–	2410
446.5	Echlin Inc.	8[illegible]	-1.5	5.2	2.4	Jan Apr Jly Oct	3046
2,980.7	FPL Group 1c	18[illegible]	0.3	7.7	28.5	Mar Jun Sep Dec	–
2,251.4	Fluor Corp 62½pc	2[illegible]	-3.9	0.7	21.6	Ja Ap Jy Oc	2609
10,582.3	Ford Motor $1	22½	4.7	2.6	29.4	Mr Jn S D	2615
39,412.9	Gen. Elect. 63c	45½	-0.8	2.6	3.6	Ja Ap Jy Oc	2675
–	General Host Corp $1	514p	-6.2	3.9	13.12	–	–
4,744.4	Gillette $1	22⅛	0.9	1.7	24.5	Mar Jun Sep Dec	2695

CANADIANS

BANKS, HP & LEASING

Hire Purchase, Leasing, etc.

BEERS, WINES & SPIRITS

BUILDING, TIMBER, ROADS

BUILDING, TIMBER, ROADS – Contd

CHEMICALS, PLASTICS

DRAPERY AND STORES

DRAPERY AND STORES – Contd

ELECTRICALS

ELECTRICITY

ENGINEERING

FOOD, GROCERIES, ETC

HOTELS AND CATERERS

For Trusthouse Forte see Forte

INDUSTRIALS (Miscel.)

INDUSTRIALS (Miscel.) – Contd

INSURANCES

هكذا من الأصل

LONDON SHARE SERVICE

● For Latest Share Prices on any telephone ring direct-0836 43 + four digit code (listed below). Calls charged at 45p per minute peak and 34p off peak, inc VAT

LEISURE

MOTORS,AIRCRAFT TRADES

Commercial Vehicles

Components

Garages and Distributors

NEWSPAPERS, PUBLISHERS

PAPER,PRINTING, ADVERTISING

PROPERTY

SHOES AND LEATHER

SOUTH AFRICANS

TEXTILES

TOBACCOS

TRANSPORT

TRANSPORT—Contd

INVESTMENT TRUSTS

INVESTMENT TRUSTS—Contd

Net asset values supplied by County NatWest Wood Mackenzie

FINANCE, LAND, ETC

WATER

OIL AND GAS

PLANTATIONS

Rubbers, Palm Oil

Teas

MINES

Central Rand

Eastern Rand

Far West Rand

O.F.S.

Diamond and Platinum

Central African

Finance

Australians

MINES—Contd

Tins

Miscellaneous

NOTES

Stock Exchange dealing classifications are indicated to the right of security names: α Alpha refers to shares traded through SEAQ by at least two marketmakers and with a normal market size of 2,000 or more, based on experience of how many of its shares are traded in the typical deal. β Beta refers to all other shares γ Gamma refers to other traded instruments.

Unless otherwise indicated, prices are in pence and denominations are 25p. Yields are based on middle prices, are gross, adjusted to ACT of 25 per cent and allow for value of declared distribution and rights.

Estimated Net Asset Values (NAVs) are shown for Investment Trusts, in pence per share, along with the percentage discounts (Dis) or premiums (Pm -) to the current pre-closing share price. The NAV basis assumes prior charges at par value, convertibles converted and warrants exercised if dilution occurs.

● "Tap Stock"
‡ Interim since reduced, passed or deferred
‡‡ Tax-free to non-residents on application
♦ Not officially UK listed; dealings permitted under rule 535(4)(a)
♦ USM; not listed on Stock Exchange and company not subjected to same degree of regulation as listed securities.
†† Not officially listed.
‡ Price at time of suspension
♦ Not comparable
‡ Cover allows for conversion of shares not now ranking for dividends or ranking only for restricted dividend.
★ Cover does not allow for shares which may also rank for dividend at a future date.
‖ No par value

B.Fr. Belgian Francs. Fr. French Francs ♣ Yield based on assumption Treasury Bill Rate stays unchanged until maturity of stock. c Cents. e Redemption yield. f Flat yield. k Kenya. C Canadian. E Minimum tender price.

Abbreviations: xd ex dividend; xc ex scrip issue; xr ex rights; xa ex all; xl ex capital distribution.

REGIONAL & IRISH STOCKS

The following is a selection of Regional and Irish stocks, the latter being quoted in Irish currency

Craig & Rose £1... β	655	......	
Finlay Pkg. 5p.... β	27	......	
Nolt (Jos) 25p.....β	1825	......	

Helton Hldgs.... γ	40	-7.0

IRISH

Cap. 8½% Ln. 1991	£99¼	......
9pc Cap Ln. 1996..	£98½	-0.3
Fin. 13% 97/02...	£115	......
Arnotts............	160	-3.0
IRG...............	128½xd	-1.9
United Drug..	175xd	0.9

TRADITIONAL OPTIONS

3-month call rates

Industrials

	p
Allied-Lyons	46
Amstrad	7
Astec (BSR)	6
BAT	60
BOC Grp	31
BTR	33
Barclays	38
Blue Circle	24
Boots	30
Bowaters	53
Brit Aerospace	56
British Steel	12
Brit. Telecom	29
Cadburys	33
Charter Cons	45
Comm Union	44
Courtaulds	32
Eurotunnel	58
FKI	6
FNFC	20
Gen Accident	48
GEC	17
Glaxo	80
Grand Met	62
Guardian	19
GKN	31
Hanson	19
Hawker Sidd	39
ICI	80
Ladbroke	22
Legal & Gen.	36
Lex Service	20
Lloyds Bank	30
Lucas Inds	13
Marks & Spencer	21
Midland Bk	18
Nat West Bk.	27
P & O Dfd	51
Racal Elect.	18
RHM	28
Rank Org Ord.	63
Ratners	17
Reed Intnl	36
Sears	8½
SmKl. Beecham A.	58
TI	45
TSB	12
Tesco	21
Thorn EMI	64
Trust Houses	23
T&N	15
Unilever	60
Vickers	19
Wellcome	48

Property

Brit Land	30
Control Secs	3
Land Securities	45
MEPC	48
Mountleigh	8½

Oils

Aviva Petlm.	3
Brit Petroleum.	28
Burmah Castrol	49
Conroy Petlm.	10
Garlic Res	1
Premier	6
Shell	41
Tuskar Res	2
Ultramar	30

Mines

Lonrho	21
RTZ	48

FT Share Service

The following changes have been made to the FT Share Information Service:

Additions: Aberforth Split Level Income (Section: Trusts)
Do. Capital (Trusts)
Do. Units (Trusts)
Contra-Cyclical Inv. Tst. (Trusts)
Do. Capital (Trusts)
Do. Zero Div Prf. (Trusts)
Slough Ests 8¼pc (Net) Cm. Prf. (Property)

Deletions: Arncliffe (Builders)
ASD (Industrials)
ASD 8p (Net) Cnv. Prf. (Industrials)
Caparo Industries (Industrials)
Ibex Hldgs. (Industrials)

NEW YORK STOCK EXCHANGE COMPOSITE PRICES

4:00 pm prices June 21

- B -

- C -

- D -

- E -

- F -

- G -

- H -

- I -

- J -

- K -

- L -

- M -

- N -

- O -

- P - Q -

- R -

Continued on next page

NYSE COMPOSITE PRICES

Continued from previous page

- X - Y - Z -

1991 High	1991 Low	Stock	Div.	Yld.	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
60¼	35¼	Xerox	3.00	0.06		93358	54¼	53⅞	53¾	+½
51	43¼	Xerox4.125				z100	48	48	48	
21¼	14⅛	Xtra 1.94				8	20⅝	20⅜	20⅜	+⅛
24⅞	14¼	Xtra Corp	0.72	0.03	231	11	23¼	23⅛	23⅛	−⅛
24¼	21¼	Yankee Egy	1.60	0.07	12	91	23	22¾	23	+¼
1½	⅞	Zapata			0	1200	1⅛		1	
9⅝	6⅛	ZenithElec			2	433	7⅛	7	7⅛	+⅛
18½	12	Zenith Nat	1.00	0.06	73	13	17⅝	17⅝	17⅝	−⅛
6⅛	4½	Zenix Inc x	0.99	0.17		60	6	5¾	5⅞	
15⅛	10⅞	Zero Corp	0.40	0.03	14	255	14	13⅝	13¾	+¼
41⅞	29½	Zurn Ind x	0.88	0.02	14	211	36¼	35⅞	36⅛	+⅛
13½	10¼	Zweig Fund	1.12	0.09		332	12¾	12⅝	12¾	
10	8½	Zweig Tot x	0.96	0.10		590	9⅜	9¼	9¼	

Price data supplied by Telekurs.

Sales figures are unofficial. Yearly highs and lows reflect the previous 52 weeks plus the current week, but not the latest trading day. Where a split or stock dividend amounting to 25 percent or more has been paid, the year's high-only range and dividend are shown for the new stock only. Unless otherwise noted, rates of dividend are annual disbursements based on the latest declaration.

a-dividend also extra(s). b-annual rate of dividend plus stock dividend. c-liquidating dividend. cld-called. d-new yearly low. e-dividend declared or paid in preceding 12 months. g-dividend in Canadian funds, subject to 15% non-residence tax. i-dividend declared after split-up or stock dividend. j-dividend paid this year, omitted, deferred, or no action taken at latest dividend meeting. k-dividend declared or paid this year, an accumulative issue with dividends in arrears. n-new issue in the past 52 weeks. The high-low range begins with the start of trading. nd-next day delivery. P/E price-earnings ratio. r-dividend declared or paid in preceding 12 months, plus stock dividend. s-stock split. Dividends begin with date of split. sls-sales. t-dividend paid in stock in preceding 12 months, estimated cash value on ex-dividend or ex-distribution date. u-new yearly high. v-trading halted. vi-in bankruptcy or receivership or being reorganised under the Bankruptcy Act, or securities assumed by such companies. wd-distributed. wi-when issued. ww-with warrants. x-ex-dividend or ex-rights. xdis-ex-distribution. xw-without warrants. y-ex-dividend and sales in full. yld-yield. z-sales in full.

AMEX COMPOSITE PRICES

4:00 pm prices June 21

NASDAQ NATIONAL MARKET

4:00 pm prices June 21

- X - Y - Z -

Stock	Div.	P/E	Sls 100s	High	Low	Last	Chng
Xilinx		31	330	22½	22	22¼	+¼
XL Data		13	102	6½	6	6½	+¼
Xoma Corp		14	810	26¼	25½	26¼	+½
Yellow Fr	0.94	15	1686	32⅛	31¼	31⅞	
York Rsch		18	1402	18½	18	18½	+¼
ZionsUtah	1.44	8	30	41	40	40¼	−½

MONDAY INTERVIEW

Outsider with a fresh eye

Lord Alexander, chairman of National Westminster Bank, speaks to David Lascelles

Nearly two years have passed since Lord Alexander became chairman of the National Westminster Bank, then in the throes of crisis over the Blue Arrow share price-rigging affair. If he hoped corporate life would calm down as the bank recovered, he must have been disappointed.

Shortly after he took over, the UK plunged into recession and bad debts rocketed. NatWest's US operation lost $350m. And in the past few weeks, all the clearers have been in the eye of the storm over the excessive interest charges they are said to be imposing on small businesses.

But Lord Alexander is not easily ruffled. A commanding 6ft 3in, he speaks with the well-measured tones of the barrister he once was, and gives off the air of solid reassurance one expects of a bank chairman. The past 20 months in charge of the second-largest of the UK's Big Four clearers have, however, forced him to think much more deeply about his new profession than he expected.

"I knew this would be a time of challenge. What I had not appreciated was the depth of the challenge due to the state of the economy and changes in the banking industry," he says.

He has certainly had to cross a cultural divide. Although he enjoyed a highly successful career at the bar and was chairman of the Takeover Panel, he had no direct experience of corporate governance, let alone of banking. But he has made a virtue of being an outsider by bringing a fresh eye to NatWest's problems – as well as a determined personality. A few months ago he startled the industry by stating the unmentionable: that there were bound to be more bank failures, though he hastens to say this was intended as a statement of fact rather than his remedy for the excesses of the banking business.

He has also thrown himself into the City's affairs by heading a Bank of England committee to examine weaknesses in UK law which might hurt London's standing as a financial centre. The job combines his role as a lawyer and banker and has, in some people's eyes, added to his qualifications as a possible future Bank governor.

Lord Alexander does think there are important lessons for bankers in the costly mistakes of the 1980s: the losses on Third World debt and property lending, ill-judged acquisitions and diversifications.

"It's very easy to sound like an outsider, wise after the event. But there were plenty of historical precedents on Latin American lending which should have put the red light up for everybody. We have got to ensure that the lessons of the recent past are not forgotten by the rising generation of bankers."

The three main lessons, he thinks, are the temptations banks face to lend too much to an attractive sector, especially when they are flush with liquidity and governments are encouraging them to lend; the extent to which bankers allow themselves to be influenced by what other banks are doing; and their extravagant behaviour when times are good. "There was definitely some lessening in lending standards in the late 1980s – all the pressures were on. A critical lesson is that they should never drop again."

Nonetheless he concedes that the new marketing-driven culture of banking makes it much harder to keep lending under control. "There must be a countervailing culture of training, monitoring and checks in force."

More recently, Lord Alexander has learnt that banks can seldom be winners. If they lend too much, they are accused of imprudence; if too little, then of usury. And if they try to raise prices, they are either price gougers or monopolists.

He wonders why Tesco and Sainsbury can push up prices by 5 per cent and see their customers accept that it is all part of doing business. But when banks do the same, there is pandemonium. "We don't have the residue of goodwill that Tesco and Sainsbury have. But the answer to that can't just be laid at the door of the public. As banks, we need to take a big step forward."

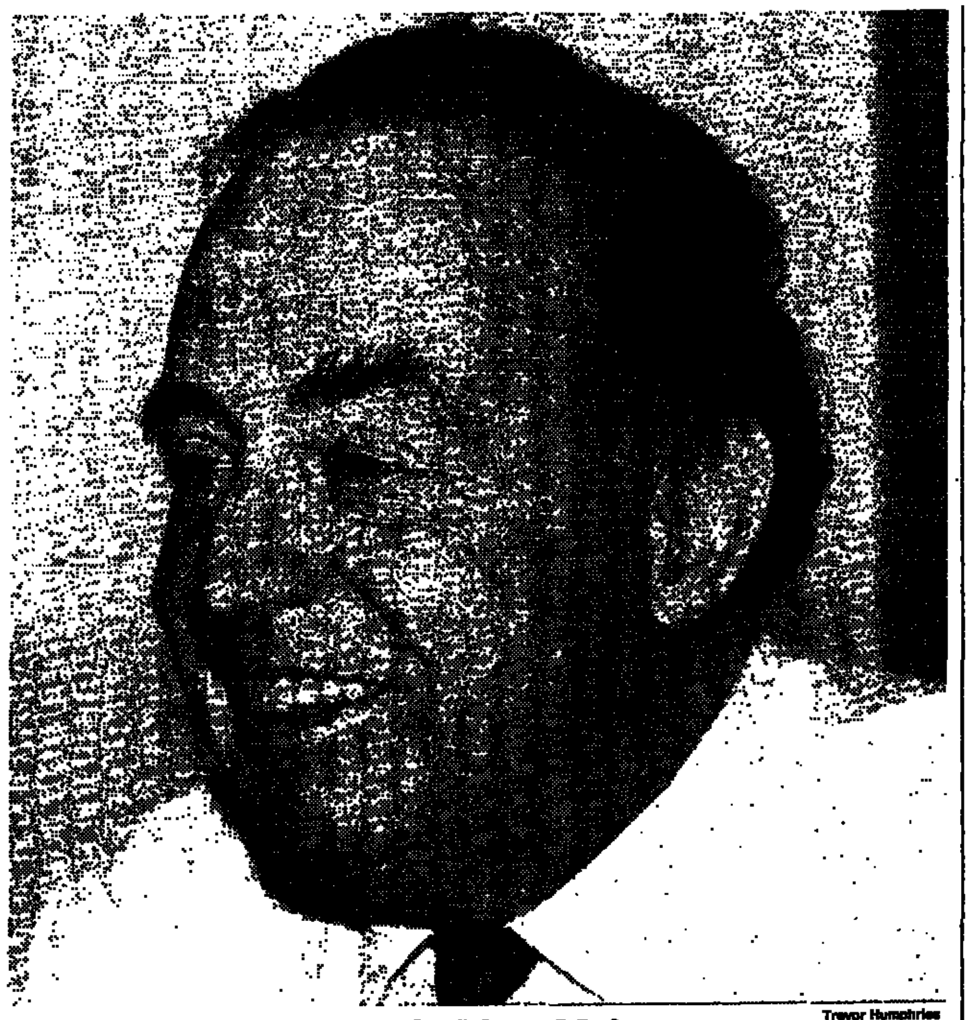
What many people fail to realise, he thinks, is that banks are not just businesses, but businesses whose margin for error is very small.

"Roughly speaking, if 99 per cent of a bank's loans are OK, then you make money. But if that figure falls to 98 per cent then you're in trouble. A great number of people still see us as a public utility, but we're suffering the same problems as our customers are suffering."

Much as a bank wants to support its customers, it cannot ultimately take an uncommercial decision. "It's very seductive to say yes, but not very practical in the current environment. It would cut against the strength of our business." In this respect, banking has changed a lot from the old days when it enjoyed a measure of government protection, but, as a *quid pro quo*, was expected to chip in for lifeboats at times of crisis. While banks today still have some protection (from hostile takeover for example), the pressures from the market are much the most potent forces driving the management, he argues.

Altogether, he regrets that banks are not as "respected" as they should be. "Bashing the banks is fashionable. It wouldn't be if it didn't strike a chord with a large part of the public. I'm not suggesting it's a one-way road. We have much to do to earn the respect that much of our activity warrants."

Lord Alexander thinks a large part of the problem is conveying the message that banks must make a profit – indeed that it is in the national interest to have strong and healthy banks. But banks must realise that the quality of service they provide is far from perfect. "There are areas where we know it's patchy." In particular he singles out shortcomings in the way banks communicate with their customers. "People are naturally angry when things are imposed on them by diktat, without discussion. We have to be as caring as when we first started the relationship."



Trevor Humphries

'Bashing the banks is fashionable'

Another area is banks' relations with their customers. Banks may not have worked as hard at these as they should. But nor have customers: they increasingly shop around for the best deal. "I favour close, regular ongoing relationships. But it is apparent that it doesn't only depend on us."

Lord Alexander even advocates features of the German system where banks own direct equity stakes in their customers. "We can't throw a switch and go that way. But the industry is evolving in that direction through venture capital and other routes. If our customers want it, we are increasingly taking stakes in mid-sized businesses. This will be a healthy development because it would indicate that banks are linked to the fabric of business and industry."

The way forward will be difficult, however. There is the near-term problem of economic recovery. "None of the statistics I see in the developed countries suggest that there will be speedy growth. Here, we'll have considerable stresses in coming to terms with a permanent low inflation discipline. Therefore, loan demand and growth will come slowly." Banks are also operating under tough new capital constraints, which will ensure that they are strong but not necessarily hungry for new business.

That may not be a bad thing. One of Lord Alexander's biggest worries is that the UK will emerge from this recession without having broken the bad habits of the past, epitomised in his mind by people's obsession with rising house prices as an indicator of economic health. "Why can't people derive confidence from the fact that house prices are simply stable? Germany achieved its growth in the last decade with house prices showing a slight fall."

But even after recovery, banks will have to go through a big adjustment. Although there will always be demand for traditional banking services, such as money transmission and basic lending, the future for bank earnings growth will lie in providing a wealth of other financial services through their branches and computer systems.

"In a decade's time, they will be groups which have a large banking element, but are more general financial institutions," says Lord Alexander.

The challenge for bank managements will be to choose the right new businesses to enter, to diversify into them successfully, and then manage them competently – no small task considering the often disastrous diversifications by UK clearers, including NatWest, into such areas as investment banking in the 1980s.

"The quality of management needed in other industries is now necessary for banks," Lord Alexander says.

PERSONAL FILE

1936 Born. Educated at Brighton College and King's College, Cambridge.
1959 Graduated in English and law.
1961 Called to the Bar.
1973 Queen's Counsel.
1987-89 Chairman Takeover Panel.
1990 Chairman National Westminster Bank

Biting the bullet on health care

MICHAEL PROWSE on America

After years of talk, substantive reform of the US health care system at last seems conceivable. Last week, Mr Richard Darman, the budget director, promised that the Bush administration would unveil comprehensive reform proposals before the 1992 presidential election. The pledge was largely a political response to initiatives by Democrats, who are making the running in this complex sphere. This month, a group of senators led by Mr George Mitchell, the Senate majority leader, put forward a finely-balanced set of proposals calculated to appeal to a wide range of consumer and business interests.

There are two principal flaws in the system:

● Many Americans lack reliable access to care. About 34m people (15 per cent of the population) have no health insurance; a further 60m are under-insured because their policies do not cover serious illnesses.

● Costs remain out of control. Spending on health care absorbed 12 per cent of gross national product last year, double the ratio under President John Kennedy in the 1960s. On unchanged policies the ratio is expected to rise to 20 per cent by 2000.

It is crucial to recognise that these two apparently unrelated problems are merely symptoms of a single underlying disease: heavy reliance since the second world war on voluntary private insurance schemes financed mainly by employers. The solution involves all levels of government accepting greater responsibility in a sphere where market forces produce perverse results.

Employment is a foolish criterion for health care coverage because many people do not have secure jobs. In the 1960s, the US belatedly recognised that the retired and the poor inevitably fell through the net and set up public sector schemes (Medicare and Medicaid) to cater for them. But it has failed to confront the plight of many low-paid employees: an increasing number of employers (especially small businesses) cannot afford to provide insurance for workers, let alone their dependents.

The problem of escalating costs, meanwhile, mainly reflects the fragmentation of purchasing power caused by a myriad of separate private schemes. In other countries, costs are restrained by large purchasing organisations, such as regional health authorities in Britain or provincial governments in Canada. The US medical profession is uniquely able to write its own cheques by supplying the most expensive possible mix of services. It is no accident that US physicians earn more than five times the average salary of US workers; the pay differential in favour of doctors is less than half as great in the UK. US health costs are also bloated by the vast bureaucratic expense of thousands of separate competing insurance schemes and the "defensive" medical tactics encouraged by sky-high malpractice insurance premiums.

Under the Democrats' plan, universal access would be guaranteed by a strategy known as "play or pay": employers would be required either to provide coverage meeting basic standards or to contribute a percentage of payroll to a new public insurance programme called AmeriCare. AmeriCare would provide coverage for the unemployed as well as workers whose employers have chosen to contribute to the public scheme. It would supplant Medicaid, which is proving a costly flop in many states. Medicare, which remains hugely popular, would continue to serve the elderly.

Efforts to control costs would be spearheaded by an independent Federal Health Expenditure Board, modelled in some ways on the Federal Reserve Board. This would set national health expenditure targets, publish data on the quality of hospitals and co-ordinate cost control efforts by state-based "purchasing consortia". The consortia's powers are unclear but they would be expected to negotiate reimbursement rates for local hospitals and doctors, and control the volume of medical services provided.

The Mitchell plan represents a deliberate compromise. If logic were the sole consideration, the US would abandon its reliance on employer schemes and move further towards the Canadian system where health care is managed by the provinces and financed out of general tax revenue. The "play or pay" proposal is far from ideal. It would impose additional costs on many small employers, forcing some out of business. It would reduce, but hardly eliminate, the deadweight administration burden associated with competitive health insurance polices. The health board would exert only partial control over costs because the bulk of healthcare resources would still be channelled through private insurers.

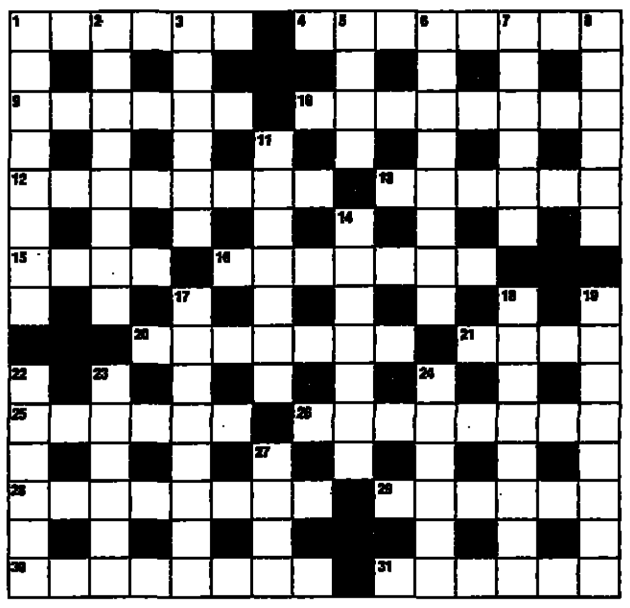
The Democrat senators, however, argue that the US is not yet ready for more radical proposals. The lobbying power of private insurers would stymie any attempt to sweep them into obscurity. A new payroll tax on employers who duck their responsibilities would be unpopular – but far less unpopular than a substantial rise in personal taxes.

This realism presents a dilemma for the Republicans. Experience suggests that private sector competition does not curb costs. Nor can the plight of the uninsured be solved merely by exhorting employers to extend coverage. Canadian-style socialised medicine is anathema for conservatives. The only plausible reform strategy thus appears to involve some variant of the "play or pay" proposal bolstered by stronger central cost controls. Mr Darman's choice is either to steal the Democrats' clothing or publish a plan that everybody knows is a sham.

JOTTER PAD

CROSSWORD

No.7,576 Set by TANTALUS



ACROSS

1 Forest cultivated by US composer (6)
4 Friend dies unexpectedly round a stake (8)
9 Ordinary girl meets student (6)
10 Drink with artist – it makes a picture (8)
12 Gentle ape chewed plant (5,3)
13 Intention to draw (6)
15 Hurried, to see a genus of frogs (4)
16 Exicted, I stare at a precious stone (7)
20 Narrate about European nobleman (7)
21 Self-confident girl issues receipt (4)
25 Salesman sat working with meal (6)
26 Outspoken heir (8)
28 Friendly carriage (8)
29 Would one not use this transport? (6)
30 Choose boy to find minute particle (8)
31 He that only rules by —— (Tennyson) (6)

DOWN

1 Window fastener repaired (8)
2 Strong fabric worker makes for serviceman (8)
3 Create new game (6)
5 Wild ox in Indian oak grass (4)
6 Being brave, I printed correction (8)
7 Illness caused by a charge I admitted initially (6)
8 Scope for former wife to get wine (6)
11 Arranging net is no strain (7)
14 Ratteen designed with three leaflets (7)
17 Communists get something to eat for bird (8)
18 Undertake to provide the meat? (8)
19 New master meeting Queen makes headline (8)
22 Thrice set about – it's so sad (6)
23 Red Indian raising a cap to ambassador (6)
24 I go in to deal and end up with harangue (6)
27 Love to mix oil for potpourri (4)

The solution to last Saturday's prize puzzle will be published with names of winners on Saturday July 6.

No haven in home office

It is little wonder that the home office is regarded as the political graveyard of any aspiring minister of the crown. It is not, of course, every day that dangerous dogs are snapping angrily at departmental ankles, evoking rival emotional arguments over canine control and inducing indecision in the home secretary.

But every day (and almost every hour of every day) the home office is having to weigh the competing claims of the individual citizen (and often aliens seeking entry to, or avoiding removal from, the United Kingdom) and of the public interest.

It is a task of unrelenting difficulty, and many a home secretary has found decision-making over issues of civil liberties onerous and ever-susceptible to public debate and parliamentary challenge. (In the days of capital punishment a hideous responsibility rested on the home secretary.)

For some time now the area that has most acutely exercised the minds of successive home secretaries has been *political asylum – the aspect* of immigration control which itself has been a thorny issue for two decades. Just as political persecution remains rife around the world, and international mobility increases, so every-increasing larger numbers of refugees seek the safe haven of democratic countries. Britain, with its tradition of providing political refuge, is finding its liberal policies under strain. Both law and practice relating to refugee status and political asylum provide an uncertain backcloth to decisions made by immigration officers and home office officials under the aegis of the home secretary.

JUSTINIAN

Under international law any person who is deemed to be entitled to refugee status by the authorities of the country in which he is seeking asylum may not be returned to the country in which he fears persecution. It is the right of the individual to be recognised as a refugee, but it remains the decision of the host country whether to grant him or her asylum.

Refugee status and asylum are in theory two separate issues, but a government is unlikely to refuse asylum to a recognised *refugee who has* arrived directly from a country where he genuinely fears that he will be persecuted for reasons of race, religion, nationality, or political opinion.

But who qualifies as a refugee? The key phrase in the 1951 UN Convention Relating to the Status of Refugees (which was extended in 1967 beyond the original class of second world war refugees to include any person falling within the definition) is "well-founded fear of persecution". This involves both a subjective and an objective test: the elements of fear must be a state of mind in the refugee; that the fear must be well founded involves the consideration of objective criteria. The fear may be real, but not well founded.

There are other guidelines which the authorities use, but two problems are immediately apparent. First, the political judgment of the likelihood of persecution will be that of the host government. During the trouble in Sri Lanka, Tamils who arrived in this country were denied refugee status because the home office, arguably wrongly, was dubious about their security if sent back to Sri Lanka. Second, there is a constant concern that refugees are fleeing intolerable social conditions in their home country and merely seeking economic security in Britain rather than a flight from persecution as such.

The UK is a party to the 1951 convention (and the 1967 protocol) and thus accepts the international obligation to act accordingly. The UK, however, has not incorporated the provisions of the convention into domestic law. There is no reference to refugees or asylum in the *Immigration Act 1971*.

But there are several statements in the Immigration Rules that declare government policy and guide immigration officers as to how to treat an applicant for leave to enter the UK. If a person is a refugee the provisions of the UN convention are to be applied, and leave to enter will not be refused if removal from the UK would be contrary to the convention. Furthermore, anybody may apply for asylum in the UK on the ground that, if they were to be ordered to leave, they would be sent to a country to which they were unwilling to go.

There is no statement either in the law or in the rules or elsewhere as to the procedure to be adopted in the consideration of refugee cases, other than that in the case of a potential refugee at a port of entry an immigration officer must refer the matter to the home office for decision. The rules are also silent about when and how extensions of stay in this country may be granted and permanent residence obtained.

The result is that all these difficult matters about refugee status and political asylum are left entirely to home office practice which may be subject to alteration without notice to the public. The present practice of the home office is well known, but the decisions are not appealable. There is no right of appeal under the Immigration Act 1971 against a refusal to confer refugee status when either leave to enter or leave to remain is granted. The issue of political asylum may, however, arise on appeal against a refusal to grant leave to remain and also where there *is a decision to deport*.

The most one can say about the current state is that when judicial review is sought to challenge the exercise of ministerial discretion the courts have declared that they will be scrupulous to ensure compliance with the procedural safeguards. The whole topic of political asylum could do with a thorough review. Perhaps the political parties will allude to immigration control and indicate what remedies they think should be supplied in their respective citizens' charters.

Louis Blom-Cooper